Property Tax Reform Summit

Presenter Bios

Amy Baker
Coordinator
Office of Economic and Demographic Research

After spending two years in the Florida House Appropriations Committee as both the deputy and actual staff director, Ms. Baker became the Coordinator of the Florida Legislature's Office of Economic & Demographic Research in 2004. In this role, she serves as the Legislature's Chief Economist.

She has worked in or for state government since 1986, serving in both the executive and legislative branches of government. Some of her past jobs include Legislative Affairs Director for Governor Bob Martinez, Chief of Staff for former Senator Ander Crenshaw when he was President of the Florida Senate, and Chief Financial Officer for the Department of Children and Families. Living in Florida since 1980, she did her graduate work in Economics at Florida State University.

Dominic Calabro
President
Florida TaxWatch

Dominic M. Calabro is President and Chief Executive Officer of Florida TaxWatch, a statewide, non-profit, non-partisan government watchdog and research institute for taxpayers. Florida TaxWatch was founded in 1979 to improve government productivity, taxpayer value, and citizen understanding and encourage responsible participation by Floridians in their state and local governments. This is accomplished through high quality research and civic engagement, which advance productivity and accountability throughout Florida government. This timely research is used to identify how economic, fiscal, taxing, spending, and regulatory decisions affect the economic livelihood and quality of life for all Floridians. To date, approximately 70% of Florida TaxWatch's government cost-saving recommendations have been implemented by each Administration, worth over $6.2 billion or $1,060 in added value for each Florida family.

Calabro also serves as President and Chief Executive Officer of the Prudential Financial - Davis Productivity Awards Foundation, Inc., which recognizes, rewards, and replicates outstanding government productivity and innovative cost-saving achievements throughout Florida government worth over $5 billion to date.

Calabro is an "almost native" Floridian, having moved to South Florida from New York at the age of eleven. After attending Catholic school, including four years at Catholic Seminary, he graduated with high honors from Broward Community College, later receiving his Bachelor's degree with highest honors from Florida International University. He also holds a Master's degree from Florida State University and will soon receive a second Master's degree in public finance and budgeting.

Before joining TaxWatch in the early 1980s, Calabro served as an analyst with the Florida Senate Ways and Means Committee (later split into Appropriations and Finance and Taxation).

Under Calabro's leadership, Florida TaxWatch has earned and maintained the respect of the state's most highly regarded and influential leaders, and has earned the credibility and respect of the citizens of Florida as well as the state and national media.
In addition to many business and civic honors, Calabro was named by the national Junior Chamber of Commerce as one of the nation's Ten Outstanding Young Americans in 1994. Calabro resides in Tallahassee with his wife, Debbie, and four children.

Alton L. "Rip" Colvin, Jr.,
Executive Director
Legislative Committee on Intergovernmental Relations

Rip Colvin has been employed as Executive Director of the Legislative Committee on Intergovernmental Relations since March 2005. Formerly, he was employed as a Legislative Analyst by the Joint Legislative Auditing Committee for 10 years. Prior to that time he was a Public Accounts Auditor III with the Florida Auditor General for three years.

Mr. Colvin received a Bachelor of Science degree in Accounting and Finance from Florida State University in 1992. Subsequently he received his Certified Public Accounting License. Mr. Colvin's expertise includes governmental structures and the interrelationship among the branches and levels of government, government performance and efficiency in delivery of services, impact fees, local government financial emergencies, local government financial reporting, the legislative process, and experience with a wide range of intergovernmental issues.

Randall G. Holcombe
DeVoe Professor of Economics
Florida State University

Randall G. Holcombe is DeVoe Moore Professor of Economics at Florida State University. He received his Ph.D. in economics from Virginia Tech, and taught at Texas A&M University and at Auburn University prior to coming to Florida State in 1988. Dr. Holcombe is also Senior Fellow at the James Madison Institute, a Tallahassee-based think tank that specializes in issues facing state governments. He is currently serving as president of the Public Choice Society and president of the Society for the Development of Austrian Economics. From 2000 to 2006 he was a member of Florida Governor Jeb Bush's Council of Economic Advisors. Dr. Holcombe is the author of twelve books and more than 100 articles published in academic and professional journals. His books include *The Economic Foundations of Government* (1994), *Public Policy and the Quality of Life* (1995), *From Liberty to Democracy: The Transformation of American Government* (2002), and *Entrepreneurship and Economic Progress* (2007). His primary areas of research are public finance and the economic analysis of public policy issues.

Iris J. Lav
Deputy Director
Center on Budget and Policy Priorities

Iris J. Lav is Deputy Director of the Center on Budget and Policy Priorities, a nonprofit organization that conducts research on government policies and programs that affect low- and moderate-income households. She maintains a special focus on the Center's state-level work, as well as on federal and state tax policy. Together with foundation partners, she created the State Fiscal Analysis Initiative, a network of nonprofit organizations that work on state budget issues. In 1999, she received the Steven D. Gold award for contributions to state and local fiscal policy. The award is jointly given by the Association for Public Policy Analysis and Management, the National Conference of State Legislatures and the National Tax Association. Her work often is cited by the press, and she has been interviewed on major network, cable, and public television news shows. Prior to joining the Center, she was associate director of public policy for the American Federation of State, County, and Municipal Employees and a senior associate at a consulting firm. She holds an MBA from George Washington University and an AB from the University of Chicago.

Steven O'Cain
Legislative Committee on Intergovernmental Relations

Steven O'Cain began his career with the Florida Legislative Committee on Intergovernmental Relations (LCIR) in May of 1992 after graduating from Florida State University with a Master of Science degree in Demography. Currently, Mr. O'Cain has primary responsibility for preparing three of the four annual reports published by the LCIR. These reports include the *Local Government Financial Information Handbook, Review of Federal Funding to Florida,* and *Salaries of County Constitutional Officers and Elected School Superintendents*. Additionally, Mr. O'Cain maintains the Committee's website (www.floridalcir.gov) and updates the numerous data files made available via the site that address a variety of local government fiscal-related topics. Prior to his career in state government, Mr. O'Cain was a Florida public school teacher for four years.

Dr. Jim Zingale
Executive Director
Florida Department of Revenue

Dr. Jim Zingale has served as executive director of the Florida Department of Revenue since January 14, 2000. He holds a doctorate in economics from Florida State University. Before joining DOR as deputy director in 1990, Zingale served as staff director of the Florida House of Representatives Appropriations Committee for four years. Previously, he served as the first legislative research director, a deputy staff director of the Senate budget and appropriations committee and staff director of the Senate Finance and Tax Committee.

Zingale is leading DOR's effort to create pioneering innovations in technology, business process management and human resource development to reduce costs, increase productivity, and improve service in tax administration and child support enforcement. His vision is to lead DOR to be competitive with world-class organizations in all aspects of its operations.

Governor's Committee Report

Property Tax Reform Committee Preliminary Report and Recommendations

State of Florida
December 2006

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Executive Summary

The property tax in Florida is the single largest tax source currently used to fund government. The Florida Constitution has reserved the property tax for local governments to use in funding a wide array of public goods and services. Yet, as the year 2006 comes to a close, even though tax preferences for many permanent residents are higher than ever before, many taxpayers are very unhappy with Florida's property tax system. Several years of extraordinary appreciation in real property values, while bestowing greater wealth to property owners, has also brought into clear relief the shortcomings of the current tax structure.

Affordability is a problem. Taxes on many properties have far outstripped the ability of their owners to pay. Several years of double-digit increases in property values have not been offset by reductions in tax millage rates levied annually by local governments. New residents to the state wishing to purchase their own home are finding the taxes on many properties to be unaffordable. Citizens' interest in restraining local government tax increases has been undermined by the Save Our Homes preference, which has insulated most voters from rapid tax increases even though property values have risen dramatically and tax rates have fallen only modestly.

There is a "lock in" effect. Many Floridians that own their own homes and have lived here for several years are finding themselves unable to relocate within the state because a change in homeownership will result in loss of substantial tax benefits.

Systematic inequities have emerged. Neighbors with the same property values are often being taxed at drastically different levels. The constitutional protections granted to homesteaded properties have shifted the overall burden of taxes to other property types, such as those used by businesses, renters, and part-time residents.

The variety of issues defies a simple solution. The Florida Legislature, unable to find a solution in its 2006 legislative session, authorized an in-depth study of property taxes in

Florida to help form the factual basis for future decisions on the issue. The results of this study will serve both the Legislature and the constitutionally established Taxation and Budget Reform Commission to be formed in 2007. This commission will have the power to consider a wide range of budget and taxation issues and place constitutional amendments on the statewide ballot in the 2008 general election.

In June 2006, Governor Jeb Bush issued Executive Order Number 06-141 establishing the Property Tax Reform Committee. Governor Bush saw a need to inform the debate on property tax reform with input from the "real world"—from private citizens, business associations, professional associations, and state and local governments. Additionally, the Committee's efforts were seen as a bridge between the legislative study and the Taxation and Budget Reform Commission.

The Committee is charged with making recommendations on how to improve property taxation in Florida. The recommendations to the Governor, the Legislature, and the Taxation and Budget Reform Commission are to be guided by policy criteria emphasizing a tax system that promotes equity, ease of compliance, economic competitiveness and neutrality, and an appropriate balance between public funding needs and taxpayers' ability to pay. Governor Bush directed the Committee to consider, at a minimum, the following:

- The consequences of current property **tax exemptions and assessment differentials**;
- The appropriateness, affordability and economic consequences of property **taxation levels** in Florida;
- **Alternative means of taxation** including, but not limited to, split-rate and land value taxation;
- **Replacement alternatives** to property taxation; and
- **Limitations upon local government** revenue and expenditures.

An initial report is due by December 15, 2006, followed by a mid-term report no later than March 1, 2007, then a final report no later than December 1, 2007.

Thus far, the Committee has held six meetings, during which the primary problems with the property tax structure were identified and many possible solutions were suggested. This four month period of information gathering has enabled the Property Tax Reform Committee to establish for itself a base of knowledge from which to move forward. The next phase of the committee's work will entail a more in-depth exploration of the consequences of specific ideas for solutions. The committee's recommendations listed below largely reflect the need for further study and deliberation and are consistent with the timeline set in the Governor's executive order establishing the committee.

Recommendations:

1. **Any recommendations to improve property taxation in Florida should be founded on a comprehensive approach, with an emphasis on simplifying the system for all taxpayers.**

2. **The Property Tax Reform Committee should continue to meet and formulate recommendations as contemplated in Executive Order Number 06 – 141.**

3. **The Property Tax Reform Committee concurs with the suggestions offered by the Auditor General in his performance audit of the Value Adjustment Board process (Report # 2006-007), except for the possible creation of an appeals process at the regional or state level.**

Further Study:

Several potential property tax system changes should be explored in more detail. The Committee will further study the following ideas:

a. Assess business property based on current use only, instead of "highest and best use" value.

b. Cap tax revenue growth for individual local governments.

c. Cap tax growth for individual properties.

d. Full or partial replacement of the property tax with other forms of taxation.

e. Assess properties using a moving average value of several years' assessments instead of using just the current year's value.

f. Simplify the "Truth in Millage" notice to be more easily understood by taxpayers.

g. Increase the homestead exemption.

h. Save Our Homes Portability.

i. Phase-out of the Save Our Homes tax preference.

j. Partial-year assessment of improvements to real property.

k. Agricultural use classification improvements.

l. Protecting homestead-related tax benefits when property is taken through the use of governmental powers of eminent domain.

m. Protecting homestead-related tax benefits during frequent relocations required by military service.

Background/History

Property taxes are the leading single source of tax revenue for government in Florida, with $25.7 billion levied in Fiscal Year 2005-06. This compares to the $23.6 billion in state and local sales taxes collected--the second largest single tax source. The property tax base, or taxable value increased by 25 percent in one year, growing from $1.31 trillion in Fiscal Year 2004-05 to $1.64 trillion in Fiscal Year 2005-06. Property taxes in Florida are used to fund the activities of counties, school districts, cities, and a variety of special districts such as water management districts, fire control districts, port authorities, and community redevelopment areas.

The importance of property taxes as a source of revenue for local governments is shown in Table 1. Property taxes as a proportion of local government revenues range from a low of 18 percent for cities to a high of 38 percent for school districts. As a proportion of tax revenues, property taxes are even more significant.

Table 1

	Property Tax as a percent of Local Government Revenues (FY 2003-04):	
	Total Revenue	**Tax Revenue**
Counties	**31%**	**74%**
Cities	**18%**	**56%**
School Districts*	**38%**	**95%**
Special Districts	**20%**	**99%**

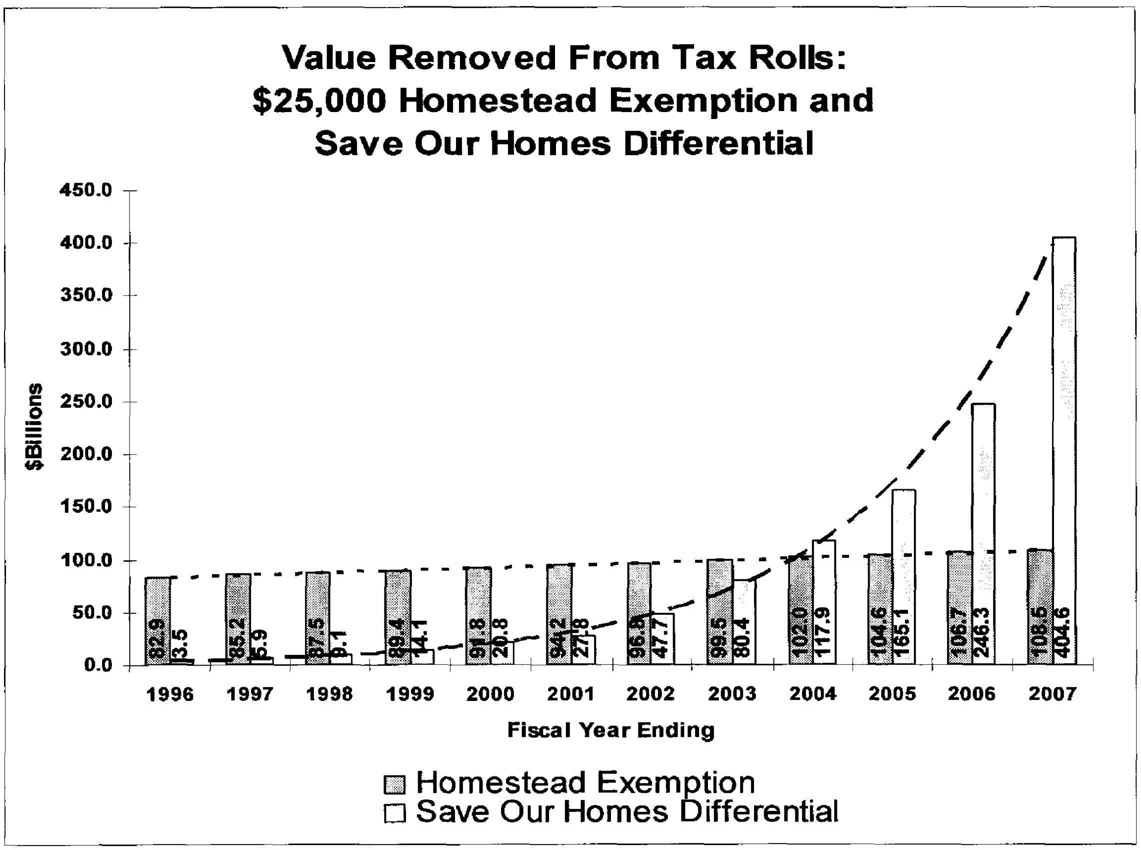
(*) School data from FY 2004-05

The prominence of property taxes in local government finances is founded in the Florida Constitution. The constitution reserves property taxes on real and tangible personal property exclusively for local governments. Furthermore, important structural aspects of local government property taxes are also set forth. Tax rates for county, city, and school district purposes are capped at 10 mills. Requirements are established for valuation of property at market value. Exemptions are set forth and allowances are made for special classifications (and assessments) of property.

In the current property tax debate the most prominent of the special tax preferences allowed by the Florida Constitution are the homestead exemption and the Save Our Homes assessment limitation. The homestead exemption was amended into the Florida Constitution in 1934. It is available to persons that own the property in which they maintain a permanent residence in Florida. Until 1980, the homestead exemption amount was the first $5,000 of property value. In that year, voters approved an increase in the exemption to $25,000 for school purposes. A three-year phased increase to $25,000 for all other property tax levies was also approved then.

Approved by the voters in 1992, the Save Our Homes assessment limit constrains growth in the assessed value of homestead parcels to the lesser of 3 percent or the

Chart 1



percentage change in the Consumer Price Index, with assessed value never being allowed to exceed market value. The limit applies to individual homesteaded parcels until ownership changes, at which point the assessed value is reset to market value and the limit process begins again. Chart 1 shows how important the Save Our Homes preference has become.

In the first eight years since Save Our Homes took effect the homestead exemption continued to be the most important tax preference for homestead properties, removing $99.5 billion in value from the tax rolls in Fiscal Year 2002-03, compared to $80.4 billion for Save Our Homes. However, in the past four years, driven by rapid market value appreciation, the value of the Save Our Homes preference has increased dramatically. By Fiscal Year 2006-07, Save Our Homes protected $404.6 billion in property value from taxation, compared to only $108.5 billion attributable to the homestead exemption.

As the year 2006 comes to a close, even though tax preferences for homestead properties are higher than ever before, many taxpayers are very unhappy with Florida's property tax system. Several years of extraordinary appreciation in real property values, while bestowing greater wealth to property owners, has also brought into clear relief the shortcomings of the current tax structure.

- **Affordability is a problem.** Taxes on many properties not benefiting from accumulated Save Our Homes protections have far outstripped the ability of their owners to pay. Several years of double-digit increases in property values have not been offset by reductions in tax millage rates levied annually by local governments. New residents to the state wishing to purchase their own home are finding the taxes on many properties to be unaffordable.
- **There is a "lock in" effect.** Floridians that own their own homes and have lived here for several years are finding themselves unable to relocate within the state because a change in homeownership will result in loss of substantial tax benefits.
- **Systematic inequities have emerged.** Neighbors with the same property values are often being taxed at drastically different levels. The constitutional protections granted to homesteaded properties (i.e., the Homestead Exemption and the "Save

Our Homes" assessment growth limitation) have shifted the overall burden of taxes to other property types, such as those used by businesses, renters, and part-time residents.

This variety of issues defies a simple solution, as was apparent in the 2006 regular session of the Florida Legislature. Numerous proposals were made to address particular problems, but no comprehensive answer emerged. In recognition of the complexity of the situation, the Legislature authorized an in-depth study of property taxes in Florida, with special emphasis on the effects of Save Our Homes currently and under proposed changes. The study is also to analyze the millage rates levied by local governments and the effectiveness of the annual tax rate/budget noticing process. Though some findings and recommendations are expected to be made prior to the 2007 legislative session, the final report of the legislative study is due in September 2007. The timing of the results is meant to serve both the Legislature and the constitutionally established Taxation and Budget Reform Commission, to be formed in 2007.

The Taxation and Budget Reform Commission, pursuant to the Florida Constitution, is formed once every 20 years for the purpose of proposing legislative and constitutional changes to Florida's state government budget laws and state and local government tax systems. The 25 member commission consists of 11 appointees by the Governor, seven by the Speaker of the House of Representatives, and seven by the President of the Senate. It can place measures directly on the ballot to be considered by voters, bypassing the normal legislative approval or citizens' initiative processes. Though the constitutional language is unclear as to the timing of submission of constitutional amendments by the upcoming commission, it is likely that they will be considering amendments for the 2008 general election ballot. The commission can be expected to consider property tax reform ideas and use the results of the legislatively approved property tax study.

In June 2006, Governor Jeb Bush issued Executive Order Number 06-141 establishing the Property Tax Reform Committee (see Appendices A and B). Governor Bush saw a need to inform the debate on property tax reform with input from the "real world"—from private citizens, business associations, professional associations, and state and local governments. Additionally, the Committee's efforts were seen as a bridge between the legislative study and the Taxation and Budget Reform Commission.

The 15 member Committee is charged with making recommendations on how to improve property taxation in Florida. To assist with its deliberations, the Committee is required to consider public comment from a broad variety of business associations, professional associations, governmental associations, agencies, businesses, and citizens. The recommendations to the Governor, the Legislature, and the Taxation and Budget Reform Commission are to be guided by the following policy criteria:

- **Equity**--The Florida tax system should treat similarly-situated taxpayers similarly;
- **Compliance**--The Florida tax system should be simple and easy to understand, as well as fair, consistent and predictable in enforcement and collection;
- **Competitiveness**--The Florida tax system should be responsive to interstate and international economic competition;
- **Economic Neutrality**--The Florida tax system should minimize distortions in economic decision-making affecting investment, consumption, geographic location, and similar decisions; and
- **Fiscal Balance**--The Florida tax system should maintain an appropriate balance between public funding needs and taxpayers' ability to pay.

Governor Bush directed the Committee to consider, at a minimum, the following:

- The consequences of current property **tax exemptions and assessment differentials**;
- The appropriateness, affordability and economic consequences of property **taxation levels** in Florida;
- **Alternative means of taxation** including, but not limited to, split-rate and land value taxation;
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An initial report is due by December 15, 2006, followed by a mid-term report no later than March 1, 2007, then a final report no later than December 1, 2007.

Committee Activities To-Date

The Property Tax Reform Committee has held six meetings to receive public input and expert testimony. As implied by the meeting minutes found in Appendix C, the information provided has encompassed a wide range of concerns from both taxpayers and local governments. Many issues, and possible solutions, have been identified for the Committee's consideration.

Additionally, a large volume of public input has been received through the Committee's website at www.propertytaxreform.state.fl.us. The website allows interested parties to easily submit suggested solutions or other information to the committee. The submitted solutions can be viewed by the general public and are categorized for easier examination. To date, a total of more than 1,000 suggestions have been submitted in the following categories:

- Unequal Taxes on Seasonal Residents (260)
- Alternative Ways of Taxing Property (179)
- Unequal Taxes on Similar Properties (137)
- Large Tax Increases When There is a Change in Residence (129)
- Homestead Exemption (127)
- Other (129)
- Replacement Alternatives to Property Tax (60)
- Budget Process Improvements (20)
- Value Adjustment Board Improvements (12)
- Tax Notice Improvements (9)
- Agriculture Classification (7)

Nearly 300 non-suggestion contacts have been made through the website as well.

Property Tax Issues and Options

This section of the report will describe the issues, the evidence and some of the possible solutions identified by the Committee. From the many hours of public testimony and the hundreds of suggestions submitted via the Committee's website, it became apparent that **a comprehensive approach will be needed to address the main issues raised by taxpayers.** The complex array of problems facing taxpayers defies simple, one-dimensional solutions. Furthermore, solutions to some problems can make other problems worse. While the many concerns expressed by taxpayers are as unique as the circumstances of each individual, the common themes of *affordability and economic competitiveness, equity,* and *the "lock-in" effect* quickly emerged as the most prominent in taxpayers' minds. In addition to these broad issues, other, more narrowly focused matters were raised, such as concerns with the valuation appeals process, use or misuse of preferential treatment granted agricultural property and certain situations in which homestead exempt status can be lost.

Issue: AFFORDABILITY--Property taxes are no longer affordable for many taxpayers.

A common complaint to the Committee has been that recent increases in property taxes are not affordable. Property taxes in Florida have grown rapidly in recent years following several years of much slower increase. Chart 2 shows total property tax levies in Florida growing from $11.2 billion in Fiscal Year 1994-95 to $25.7 billion in Fiscal Year 2005-06. The shape of the line indicates that levies have accelerated in recent years.

Chart 2

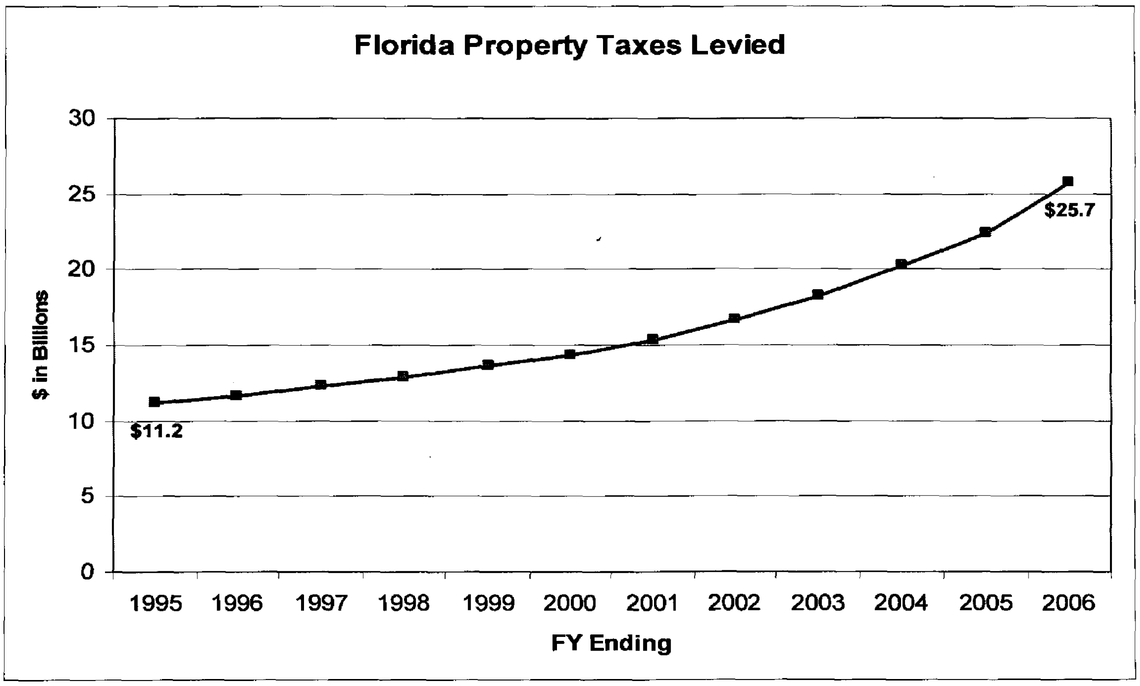
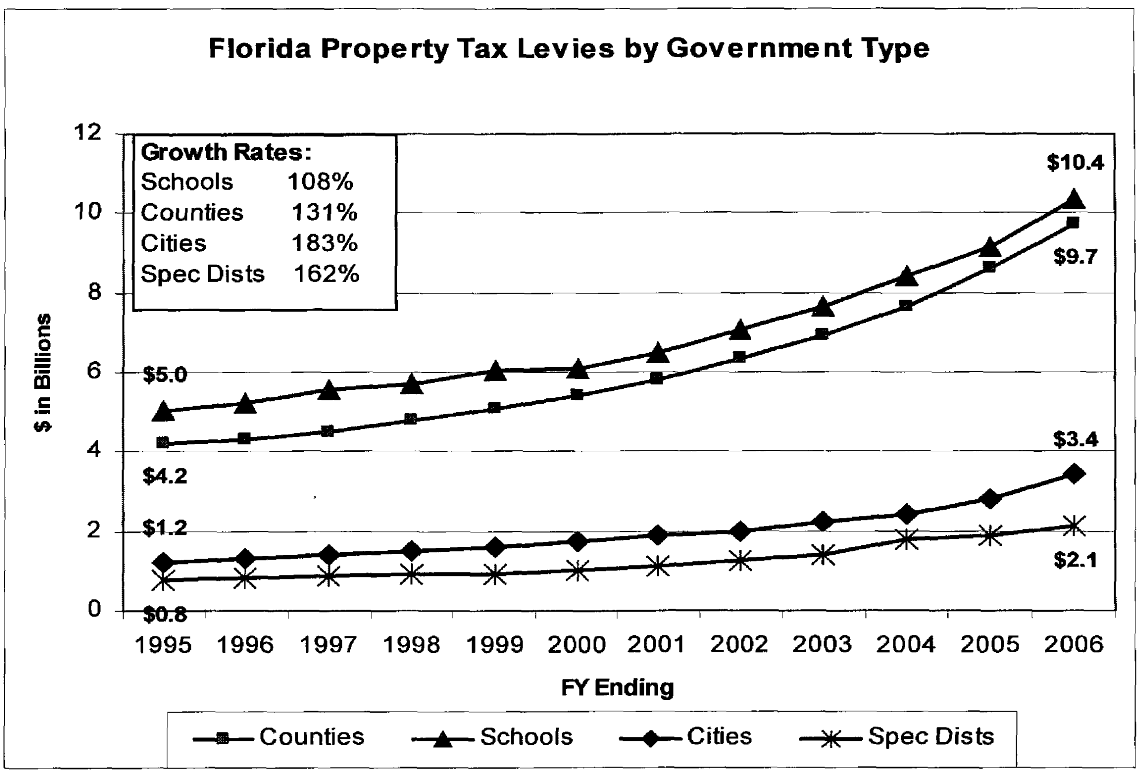


Chart 3 demonstrates that all local government types have shared in this growth.

Chart 3



Charts 4 and 5 support the assertion that taxes are unaffordable. Chart 4 demonstrates that beginning in Fiscal Year 2001-02 growth in property taxes outstripped personal income growth. Chart 5 summarizes recent history indicating that since Fiscal Year 1999-2000, property tax levies have increased by 80 percent, compared to total personal income growth of 39 percent and inflation plus population growth of 32 percent over the same period.

Chart 4

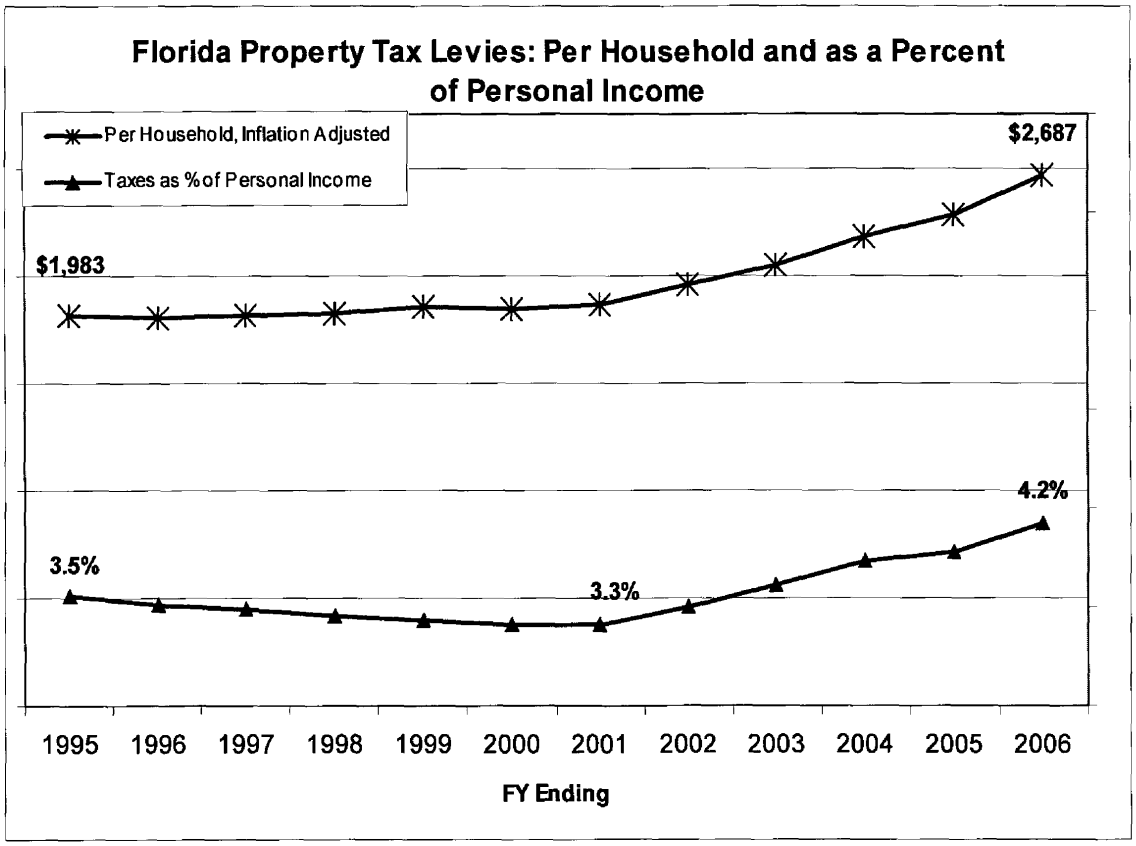
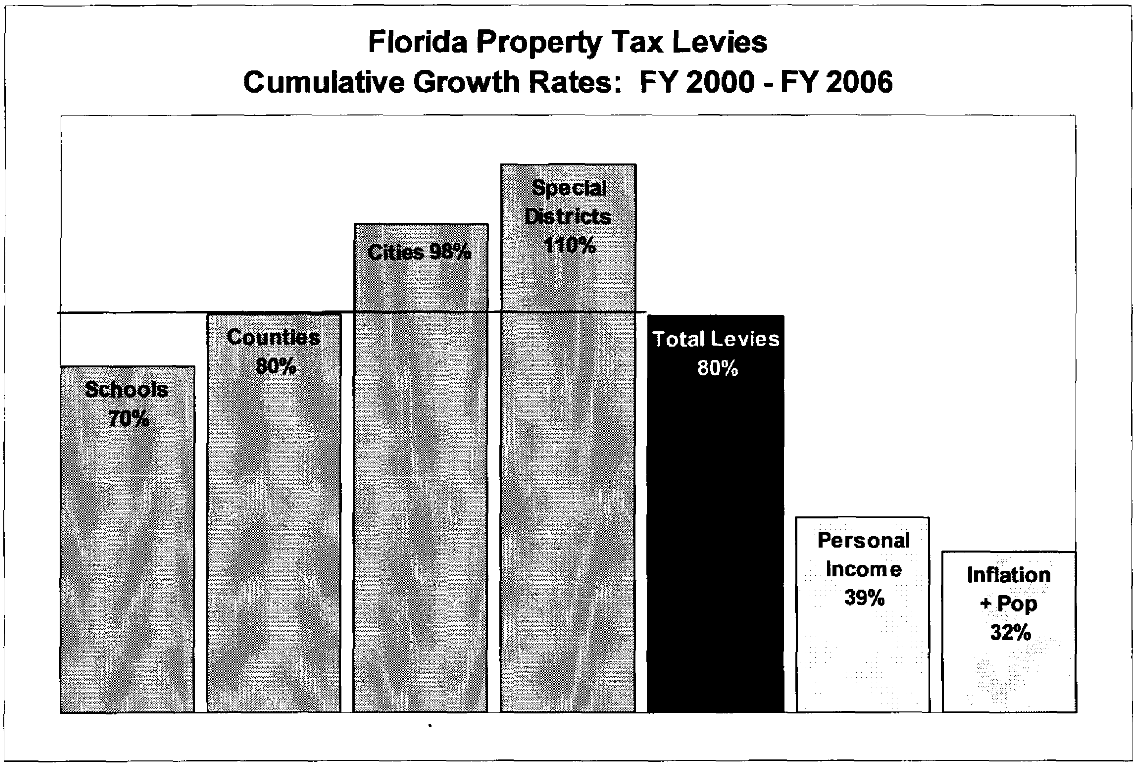


Chart 5



The effect on individual taxpayers has been dramatic. Public input to the Committee has revealed that part-time residents, often on limited or fixed retirement incomes, must consider selling their Florida retirement property because the taxes are no longer affordable (a situation made worse by recent increases in property insurance rates). Owners of residential and commercial rental properties are faced with the choice of either selling their properties or passing on large tax increases to their tenants, who often are unable to accommodate the increases. In either case the availability of affordable housing and affordable commercial space for small businesses in some areas of Florida is being hampered. Concerns have been raised about Florida's economic competitiveness and ability to continue to attract and retain businesses and jobs. For many businesses, large and small, competitive pressures prevent passing the tax increases on to customers. Businesses that can leave Florida are more likely to do so. Businesses that can not leave the state could see lower profits and curtailed operations.

The affordability issue reflects a couple of different aspects. First, assessed values based on the fair market value of real property have outstripped taxpayers' income growth. Second, tax rates determined by local government governing boards have declined modestly and not nearly enough to offset the increases in assessed values.

Assessed values have outstripped taxpayers' income growth. This is a problem for owners and users of non-homesteaded property (e.g., businesses, renters, and part-time residents) and recent new homestead owners. The extraordinary strength in real estate markets in recent years combined with the constitutional requirement that county property appraisers value properties at market value has resulted in a very rapid rise in taxable values for non-homesteaded properties. The taxable values of properties that were recently established as new homesteads also reflect this rapid acceleration. Unprotected by the Save Our Homes assessment growth cap, the average taxable value of non-homestead residential parcels increased by 99 percent (a 12.1 percent annual compound growth rate) between Fiscal Year 1999-2000 and 2005-06. The increase in the average commercial/industrial parcel taxable value was 53 percent (a 7.3 percent annual compound growth rate). These growth rates are well in excess of the 21 percent increase in Florida income per household over the same period (3.2 percent compound annually). However, it should be noted that continued rapid increases in property valuations seen in recent years are not likely to continue because real estate markets in many Florida cities and counties have cooled dramatically during 2006.

Tax rates have fallen, but not by enough to offset the increases in taxable values. Each year when local governments determine their budgets, they also set their property tax rates. Prior to finalizing their budgets and tax rates, local governments are required by state law to notify each property owner of his or her property valuation, previous year's taxes, current year proposed taxes, and taxes if the taxing authority did not increase its budget from the previous year. Additionally, each taxpayer is informed of the time and place of budget hearings, should the taxpayer want to provide input to the various governing boards prior to final budget and tax rate decisions.

In spite of current laws that afford opportunities for input from taxpayers and for annual adjustment of tax rates, recent years have seen only modest property tax rate reductions in the face of extraordinary taxable value growth. Consequently, tax levies have increased dramatically. Chart 6 shows that the statewide aggregate millage rate for all government types has decreased from 21.85 mills in Fiscal Year 1994-95 to 19.46 mills in Fiscal Year 2005-06, a 10.9 percent reduction (a 9.8 percent reduction since Fiscal Year 1999-2000). Chart 7 shows that different government types have shared in these tax rate declines to differing degrees. School district tax rates, in particular, fell noticeably more than for cities and counties. The modest tax rate declines explain why taxable value (i.e. the tax base) increased by 95 percent between Fiscal Years 1999-2000 and 2005-06, while tax levies increased by 80 percent (see Chart 8). Tax rate decreases in recent years have only slightly offset the effects of higher tax bases.

Chart 6

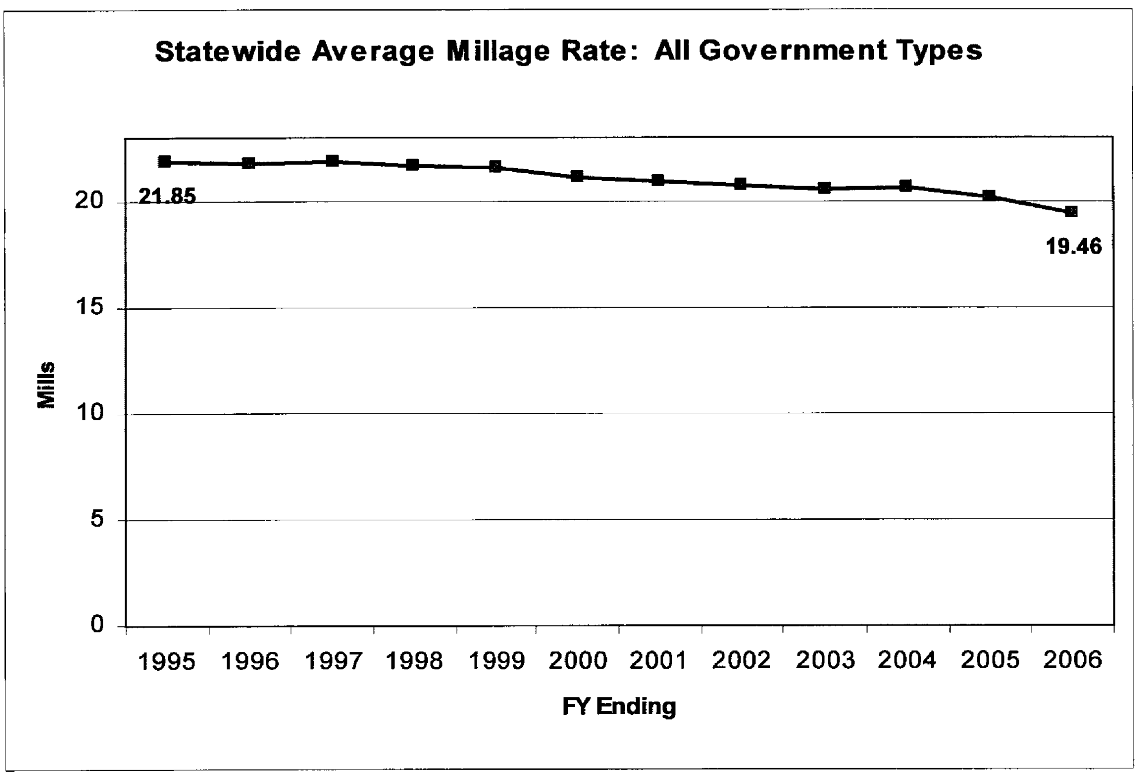


Chart 7

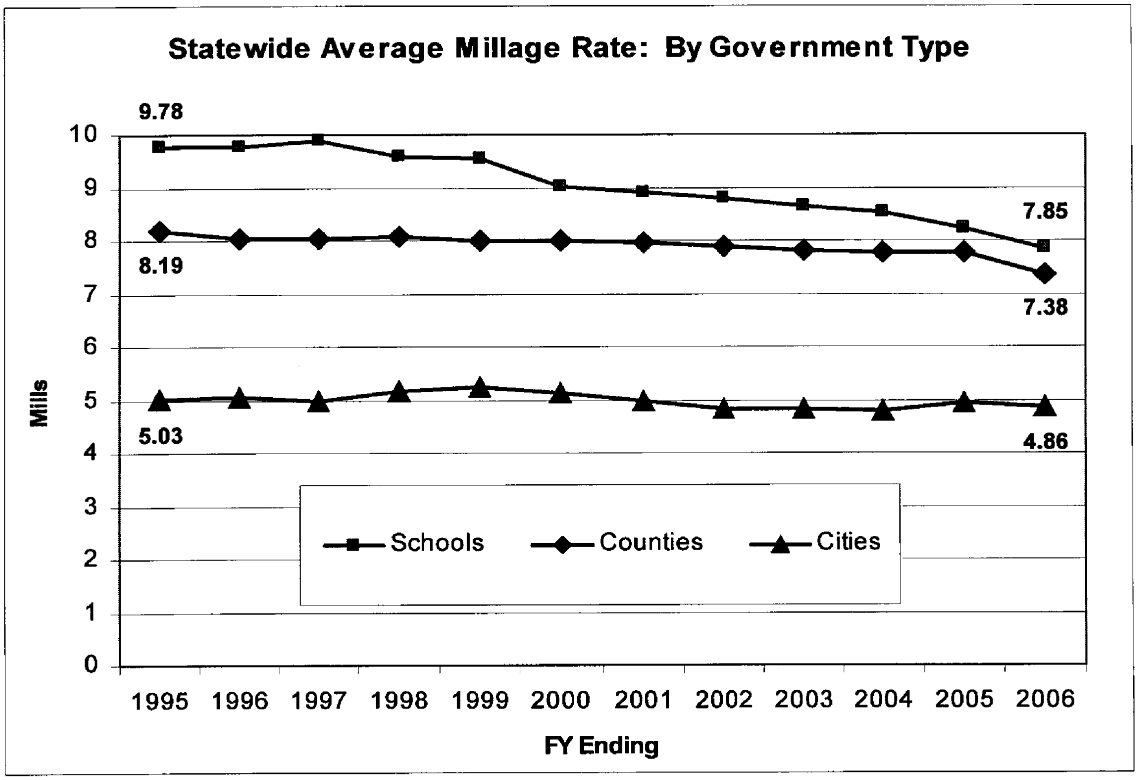
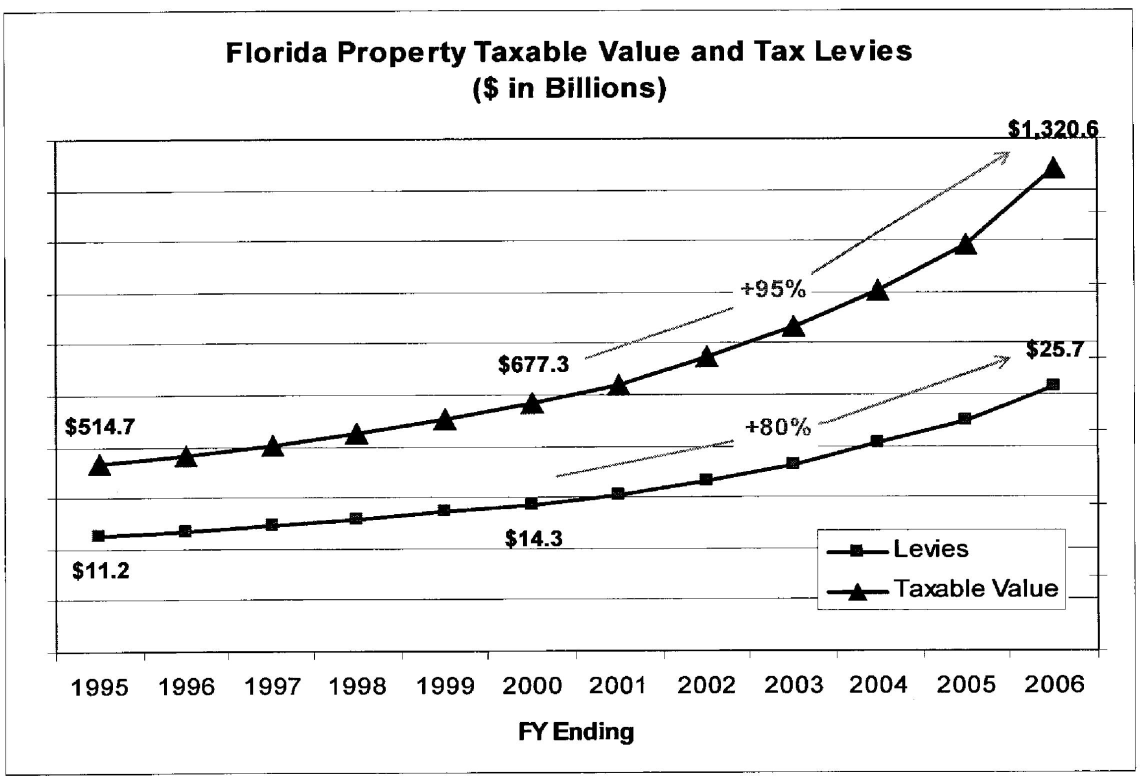


Chart 8



Options to improve affordability of property taxes include:

1. Assess non-homestead property based on current use only instead of true market value. Limit property appraisers to valuing business or residential rental property only on the basis of current use, instead of the "highest and best use" reflected in market prices. This would create a closer connection between property taxes and "ability to pay" (i.e., business income) than presently exists. Though property markets may establish higher values based on alternative uses, current businesses would not be forced out of their property by unaffordable taxes. Such a solution could be limited to certain types of property, such as affordable housing. While improving affordability, this option might also hinder the highest and best usage of real property, and place extraordinary discretion in the hands of the property appraisers. Furthermore, modification of an appraisal industry standard process is more likely to cause inequities in the valuation of many properties. Such a system might also create opportunities for abuse, against which great care should be taken.

2. Cap growth rates for individual properties. Similar to the Save Our Homes provisions for homestead properties, the annual increases in assessed value for all non-homestead properties could be limited to a certain percentage. As long as ownership does not change, affordability should be protected for most property owners. However, as is the case with Save Our Homes, inequities between similarly situated non-homesteaded taxpayers will develop over time. Additionally, new distortions in location decisions, such as the "lock-in" effect would be created and could discourage business formation. Also, assessment caps are subject to potential problems when properties that decline in market value are subject to tax increases at the same rate as properties that increase in market value.

3. Cap spending or revenue for individual local governments. Political feedback from taxpayers is not constraining local government governing boards from

allowing taxes to increase rapidly. One reason for this is that the Save Our Homes preference has insulated most voters from rapid tax increases even though property values have risen dramatically. An alternate mechanism may be needed to assure constraint of taxing authorities. A cap on revenue or spending would have forced tax rates down further in recent years and improved affordability. Even so, it would not necessarily have prevented individual taxpayers from experiencing very large tax increases due to increases in property valuations. Caps can vary in many ways, depending on:

- What is capped? Spending or revenues and types of spending or revenues,
- What is the allowable growth in the cap? Personal income, inflation, some other percentage,
- How can the cap be overridden?
- How is excess revenue disposed of?
- How is it to be enacted?

It should be noted that the committee heard testimony from representatives of local governments suggesting that the recent increases in taxes are at least partially explained by the need to offset higher costs that governments have to pay for things such as construction materials and insurance. The need to build reserves for emergencies, such as hurricanes, was also cited.

4. <u>Assess property using a five-year moving average.</u> Establish assessed value at the average of market value for the current year and the previous four. This will smooth out the effects of market changes on assessed values for tax purposes, giving property owners more time to adjust to changes. The likelihood that property taxes will outstrip owners' ability to pay will be reduced, though not eliminated. There will be a lag between market value changes and recognition of those changes for property tax purposes. This will increase the possibility that changes in assessed value in any given year will not reflect what is happening in property markets in that particular year. For example, if such a system was

currently in place, assessed value of a property could increase next year (mainly reflecting what has happened to market value the past four years) even though market value is stagnant or declines next year. Additionally, changing the appraisal process might only result in taxing authorities raising millage rates and using the appraisal process modification as an excuse for their reaction.

5. Improve Budgetary Discipline from Taxpayers. The "Truth in Millage" or other processes can be enhanced to improve information to and participation of taxpayers in local government budget-making processes. Political feedback from taxpayers is not constraining local government governing boards from allowing taxes to increase rapidly. One reason for this is that the Save Our Homes preference has insulated most voters from rapid tax increases even though property values have risen dramatically. Additionally, the timing or method of presentation or notification to taxpayers of proposed tax changes may also reduce taxpayer participation in the decision-making process. One possibility is to require earlier TRIM-type notices to taxpayers.

6. Increase the homestead exemption. This will provide immediate relief to all homesteaders (including new ones) from high levels of taxation. Inequities between homestead and non-homestead properties will increase, however. There are a number of variations of this option, including: doubling the value from \$25,000 to \$50,000; increasing the value of the exemption to reflect inflation since the exemption was set at \$25,000, then indexing to inflation into the future; and setting the exemption as a percent of property value. The homestead exemption is essentially portable but can only provide limited protection from rapidly increasing taxes that might result from either valuation or tax rate increases. Further, local governments will see immediate and substantial reductions in their homestead tax bases, likely resulting in a further shift of taxes to businesses and rental properties.

7. Replace the property tax with an alternative revenue source. Complete replacement of the property tax will eliminate all the affordability, equity, and economic distortion problems with the current structure. The implications for taxpayers and governments will depend on the replacement tax source. The replacement revenue source will have different: patterns of incidence among taxpayers, growth characteristics, administrative issues, and levels of control by local government. Replacement sources that have been suggested include an increase in the state sales tax and a "commerce tax" on all commercial transactions in the state. There will be no more property tax problems, but other issues will almost certainly arise with a replacement source. A variation of this option is to reduce, but not eliminate, property taxes with a corresponding increase in an alternative revenue source, such as sales tax.

Issue: **THE "LOCK-IN" EFFECT-- Long-time permanent resident homeowners are finding it difficult or cost prohibitive to move to another home within Florida.**

The current Save Our Homes assessment limitation protects permanent resident homeowners who have established a homestead and experienced an increase in their market value from large annual tax increases as long as they remain in the same home. When a homestead is sold, though, the Save Our Homes benefit is lost. If the homesteader wants to relocate within Florida there is often a significant increase in tax liability, even if the newly acquired homestead property is less valuable.

In Fiscal Year 2005-06 the average (per parcel) Save Our Homes taxable value protection was $58,061. At the statewide average tax rate of 19.5 mills, this would amount to an annual tax savings of $1,130 for a homestead owner, a benefit that would be lost should the homestead be relocated in Florida. In fact, there is great variation around the average. The size of the tax savings as a proportion of a property's value tends to increase as the tenure of the homeowner increases. Long-term residents, then, tend to have larger tax benefits and will have larger potential tax increases should they relocate within Florida. The lock-in effect will also be unevenly distributed geographically around the state because it will tend to be more pronounced in areas that have had more rapid property value appreciation.

The lock-in effect discourages Florida households from using property in the manner most appropriate to individual preferences and circumstances. Examples of adjustments in property usage that are being hindered include: residence downsizing by retirees or "empty-nesters"; relocation to seek employment; upsizing to accommodate a growing family or larger income. Consequently, the number of home sales is also being suppressed, though no Florida-specific measurement of this effect is available at present.

Options to alleviate the lock-in effect include:

1. Portablilty—Allow homeowners to take their Save Our Homes benefits to relocated homesteads. By allowing homestead property owners to retain some or all of their Save Our Homes benefit upon change of homestead location, the lock-in effect can be reduced or eliminated. Decisions about whether or not to relocate within the state will be much less affected by tax considerations. Also, affordability for homestead property owners will be improved. However, inequities between long-time residents, on the one hand, and non-homestead properties, first-time homeowners and new residents, on the other, will grow. Many variations of "portability" are possible, including: limits on the amount that can be transferred; age, income, or geographic limitations on when benefits can transfer; the number of times a transfer can happen; applying only when "downsizing"; and allowing the benefit to be transferred from parent to non-dependent child if the child is living in the home.

   Implementation of a portability plan will reduce property tax rolls below levels they would otherwise have attained. This does not mean that tax rolls will decline. A more likely outcome is that rolls will grow more slowly than would otherwise be the case. Official estimates from the Florida Revenue Estimating Conference of the effects of Save Our Homes portability are not yet available. The Florida Department of Revenue, though, has developed some preliminary estimates in cooperation with the estimating conference. For an unlimited portability plan, the preliminary estimates suggest that the statewide property tax base would be reduced by -0.7 percent in Fiscal Year 2008-09 (first year of implementation) growing to a -2.4% reduction by the fifth year. To maintain the same level of revenues the statewide average tax rate would have to increase by 0.7 percent in the first year and by 2.5 percent in the fifth year. Note that wide variations can be expected among counties.

2. Eliminate Save Our Homes. Elimination of the Save Our Homes preference would eliminate the lock-in effect. Many homestead property owners would also likely see substantial (double or triple digit) tax increases absent any other changes to rates or structure. Currently, more than 4.3 million households, representing at least that many voters, enjoy Save Our Homes protections and would likely not approve this option. One variation of this option is that elimination could be phased in. Benefits currently enjoyed could be grandfathered in, but not allowed to grow over time. Based on information from Fiscal Year 2006-07, elimination of the Save Our Homes preference would result in a 24.5 percent increase in the statewide property tax base. The statewide average tax rate would have to fall by 19.6 percent to maintain the same level of revenues.

3. Replace the property tax with an alternative revenue source. As discussed earlier, complete replacement of the property tax will eliminate all the affordability, equity, and economic distortion problems with the current structure, but would likely raise similar issues with any replacement revenue source.

***Issue:* EQUITY--Florida's property tax system creates and sustains significant inequities among taxpayers.**

In tax systems, equity is the fundamental element of fairness. It means that taxpayers with similar circumstances are treated the same. It is commonly expressed by taxpayers as "everyone should pay their fair share." Yet, most property tax systems, including Florida's allow for exemptions or special preferences that will naturally create inequities among taxpayers. The inequities in Florida's property tax system have been one of the most common complaints submitted to the Property Tax Reform Committee by the public. Broadly speaking, equity concerns pertain to unequal treatment *among* homestead property owners and tax shifting from homestead properties to non-homestead properties, such as those owned or used by businesses, renters, and part-time residents.

Wide differences in the tax treatment among homestead property owners have resulted from the combined effects of rapid property value appreciation and the Save Our Homes tax preference. The two primary tax preferences enjoyed by homestead property owners are the homestead exemption and the Save Our Homes assessment limitation. Generally, the value of the homestead exemption is the same for all homestead properties—the first $25,000 of property value is exempt—though very low-valued homesteads can not take full advantage of that amount. The value of the Save Our Homes preference, however, varies and changes among homestead properties as the tenure of the owner changes. If annual property value increases are more than 3 percent, then as the length of time a homeowner remains in his or her home increases, so too does the value of property protected from taxation by the assessment limit. This has been the common experience of Florida homesteaders since Save Our Homes became effective in 1994 and has been exaggerated by very rapid property value appreciation in recent years.

Not surprisingly, among homesteads the value of property protected from taxation varies widely. Chart 9 shows how the Save Our Homes benefit varied across all homesteads in Fiscal Year 2005-06. The chart shows equally sized groups of taxpayers, ordered on the basis of their Save Our Homes differential (i.e. the amount of property value protected from taxation). The natural result of differences in owner tenure and property appreciation rates is that, at the extremes, more than 500,000 homesteaders had no benefit while nearly 430,000 had an average benefit of $244,000 in property protected from taxation. More to the point raised by many taxpayers, Chart 10 shows how the tax treatment among similarly situated homestead taxpayers can vary. This chart shows

Chart 9

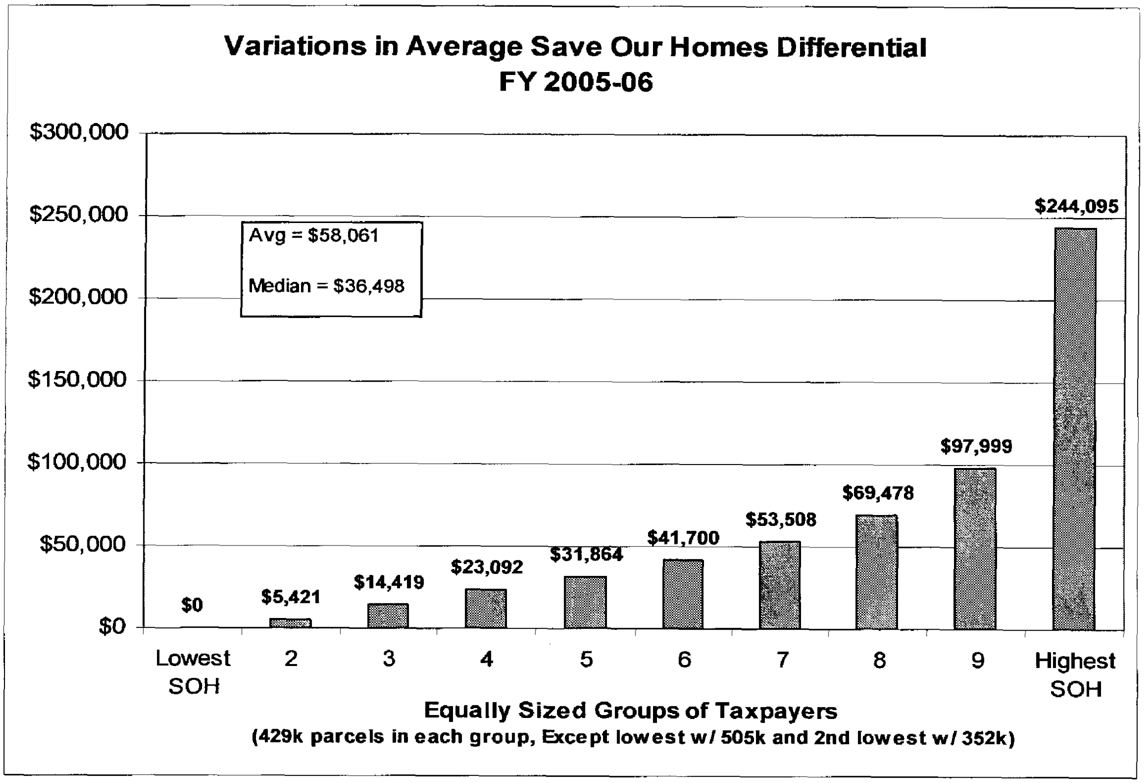
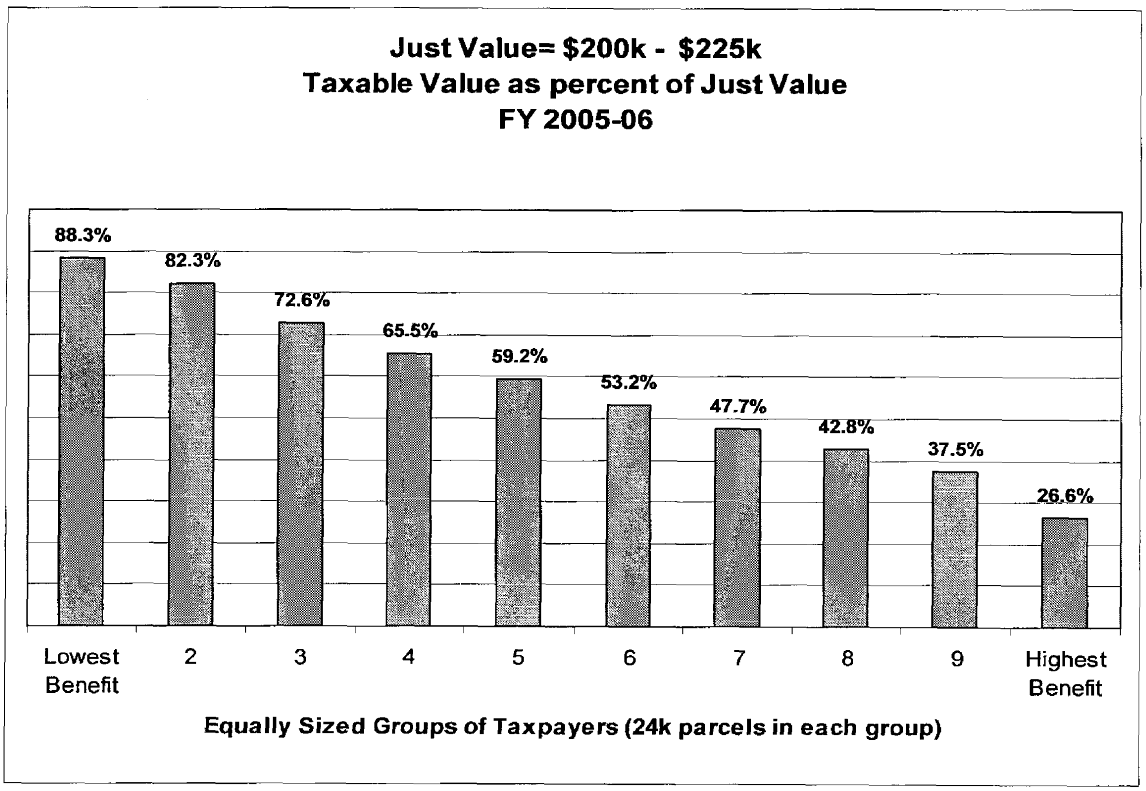


Chart 10



one group of similar homestead parcels, those with a market value of between $200,000 and $225,000, and puts all such parcels into equally sized groups. The chart shows that, at one extreme ten percent of taxpayers pay taxes on an average of 88 percent of their market value, while at the other extreme, ten percent of taxpayers pay taxes on an average of 27 percent of their market value. This represents a difference of 67 percent from highest to lowest taxable property value for properties with essentially the same market value. A similar pattern exists for other value groupings.

The growth of tax preferences for homesteaded property has contributed to a shift in tax burden from homesteaded taxpayers to non-homestead property owners (e.g., businesses, renters, part-time residents, second home owners). As the value of the Save Our Homes preference has increased over time, more and more homestead property value has been protected from taxation. This has been of great benefit to many permanent resident homeowners, but has meant that the burden of taxes that are levied will be born more heavily by non-homesteaded properties. Recent tabulations by the Florida Department of Revenue from the tax rolls for Fiscal Year 2006-07 indicate that the proportion of the tax base attributable to non-homestead residential and non-residential properties are both substantially higher as a result of Save Our Homes. With Save Our Homes the respective tax roll proportions of non-homestead residential and non-residential properties are 35.4 percent and 32.5 percent. Without Save Our Homes those percentages would be almost one-fifth lower at 28.5 percent and 26.2 percent, respectively. Conversely, without the Save Our Homes benefit the homestead tax base would be 74 percent higher. The larger resulting tax base would allow the same revenues currently being generated to be produced from lower tax rates so that taxes paid by non-homestead properties would be approximately 20 percent lower, but taxes on homesteaded property would be about 40 percent higher.

An additional source of inequity between taxpayers arises from current law that prevents taxation of substantially completed property improvements until the year following the completion of the improvements. For example, an improvement completed and occupied as of February, can enjoy 11 months of reduced taxes, until the following year when the full value is reflected on the tax rolls.

Options to alleviate property tax inequities and tax shifting include:

1. Eliminate homestead-related tax preferences such as the homestead exemption and the Save Our Homes assessment limitation. Elimination of the source of the inequities described above would solve that problem, but would also adversely affect the affordability of taxes since most homestead properties would see substantial tax increases. Note that Florida's voters would have to approve such a change via an amendment to the Florida Constitution.

2. Increase Save Our Homes Growth Caps. Instead of capping growth in homestead assessed value at the lesser of 3% or inflation, the cap could be higher. Over time, a higher cap would lessen, though not eliminate, unequal tax treatment among homestead properties and between homestead and non-homestead properties. However, affordability would be adversely affected for homestead properties.

3. Replace the property tax with an alternative revenue source. As discussed earlier, complete replacement of the property tax will eliminate all the affordability, equity, and economic distortion problems with the current structure, but would likely raise similar issues with any replacement revenue source.

4. Partial-Year property assessments. Assessing improvements for the portion of the year during which they are first substantially completed could introduce greater equity. There would, however, be additional administrative costs associated with such a system.

Issue: **AGRICULTURAL CLASSIFICATION--The agricultural use classification is, in some cases, being misused in order to avoid higher taxes on soon-to-be-developed land.**

Florida law allows land that is being used for agricultural purposes to be valued solely on the basis of that use, instead of an often much higher "highest and best use" value. The tax savings associated with having an agricultural classification can be very large. Only lands that are used for good faith commercial agricultural purposes are to be classified agricultural.

Evidence was presented to the Property Tax Reform Committee suggesting that in some cases the current law is "gamed" in order to attain the classification and associated tax benefits. A couple of specific issues were identified as ways the current law is misused. First, owners/developers of land that has never been classified agricultural may claim that, by planting pine trees on the property, a bona fide agricultural use is established. Second, the land must only be in agricultural use on the January 1st date of assessment. If the use is discontinued a week after the assessment date, the property can still benefit from lower taxes for the year.

Options to address agricultural classification issues include:

1. <u>Require minimum time periods during which property must be used as agricultural in order to qualify for the classification.</u> This will prevent land owners from taking advantage of the January 1st assessment date.

2. <u>Impose tax "recapture" provisions under certain circumstances.</u> For example, land previously not classified as agricultural that is seeking the classification would be subject to repayment of the avoided taxes should the agricultural use be ended prior to a certain time.

<u>*Issue:* VALUE ADJUSTMENT BOARDS—Several areas of improvement have been identified by the Florida Auditor General.</u>

Value adjustment boards (VABs) exist in each county to hear appeals from taxpayers regarding their property valuations and their classifications and exemptions. VABs consist of three members of the board of county commissioners and two school board members. Taxpayers may also appeal VAB decisions in circuit court, or go directly to circuit court, bypassing the VAB entirely. These boards are very important in the property tax appeals processes established under current law. Their proper conduct is of obvious vital importance to taxpayers.

In 2005, the Florida Auditor General conducted a performance audit (Report No. 2006-007) of county value adjustment boards in order to review the administration of the value adjustment board process by the Department of Revenue, the boards themselves, and the clerks of the court (who maintain the records for the VABs). The audit revealed numerous areas for improvement. Included among the Auditor General's suggestions were:

- The Legislature should consider creation of an appeals process at the regional or state level in conjunction with other recommendations in the report,
- The Department of Revenue should consider creation of a procedures manual to be used statewide so that procedures would be consistent and uniform for hearings before the VABs,
- Consideration should be given to requiring all counties to use special masters to promote consistency in the conduct of petitioner hearings,
- Value adjustment boards should review their procedures to ensure that there is no one in a position to influence the decision-making process of the Board regarding the selection of or disqualification of special masters who have ruled against the property appraiser in past petitioner hearings,
- Florida law should be amended to prohibit the county attorney from representing the VAB and to require the VAB to appoint private counsel, with the cost of such counsel being borne by the county and district school boards,
- Consideration should be given to providing petitioners in all counties the opportunity to have good cause hearings when warranted,
- VABs should ensure that their decisions are appropriately and adequately documented pursuant to law,

- The Department of Revenue should consider conducting training programs for special masters with specific emphasis on tangible personal property assessment,
- The law should be amended to require that the experience information contained in the applications submitted by the special masters to the clerks of the VABs be verified by either the clerks or the Department of Revenue,
- Clerks of VABs should assure that documentation that should be included as part of the record is retained,
- The Legislature should consider amending law to require VAB public notices to include the number of petitions heard by the boards and upon which a decision was rendered in the required public notice, and
- The VABs should consider the adoption of policies and procedures that would provide petitioners the opportunity to attend special master training meetings.

***Issue:* HOMESTEAD EXEMPTION—Loss of homestead exemption under select circumstances may not be desirable public policy.**

Some taxpayers identified specific situations in which they had lost homestead exemption benefits (which include Save Our Homes benefits) under current law, arguing that such situations were not desirable public policy and should be changed.

When a homestead property is taken by use of a government's power of eminent domain, the homestead location will have to change and, consequently, Save Our Homes benefits will be lost. Though not a common occurrence, there is a fundamental question of fairness, namely, should a homeowner be penalized, possibly with much higher taxes, if the state or local government forces him or her to sell their property?

The frequent relocations required by military service, especially requiring relocation overseas, makes it difficult to retain homestead exemption and Save Our Homes protections. Current Florida law allows members of the U.S. Armed Forces to retain their homestead exemption while stationed elsewhere if they rent out their homestead property while absent. This arrangement may not suit all situations. Some taxpayers have suggested broadening these provisions.

The homestead exemption can not currently be transferred from one generation to another within a family or to a related family member. Some taxpayers have argued that the homestead exemption should pass on to a non-dependent child when that child has been a long-time live-in caretaker of their elderly parent in the parent's home.

Recommendations

After four months of gathering and absorbing a variety of information about Florida's property tax system, ranging from technical operational details of the system to real life experiences of taxpayers, the Property Tax Reform Committee has established for itself a base of knowledge from which to move forward. The next phase of the committee's work will entail a more in-depth exploration of the consequences of specific ideas for solutions. The committee's recommendations discussed below largely reflect the need for further study and deliberation and are consistent with the timeline set in the Governor's executive order establishing the committee.

Recommendation: **Any recommendations to improve property taxation in Florida should be founded on a comprehensive approach, with an emphasis on simplifying the system for all taxpayers.**

The issues and options discussed earlier in this report amply demonstrate the complexity of the problems plaguing Florida's property tax system. Solutions to the problems some taxpayers face will exacerbate the problems other taxpayers face. Consequently, the optimal solution for all involved should emerge from a careful, comprehensive consideration of *all* components of the tax system, not a piecemeal or "band-aid" approach. The result should be a simple, more taxpayer-friendly system.

***Recommendation:* The Property Tax Reform Committee should continue to meet and formulate recommendations as contemplated in Executive Order Number 06 – 141.**

The executive order establishing the committee is created and sustained solely under the authority of the Governor. The committee recommends to Governor-elect Crist that he sustain Executive Order Number 06 – 141 and allow the Property Tax Reform Committee to continue its work. The complexity of the issues, the depth of knowledge required for good decisions, and the comprehensive approach needed to arrive at the best solution require more time than the committee has had thus far.

***Recommendation:* The Property Tax Reform Committee concurs with the suggestions offered by the Auditor General in his performance audit of the Value Adjustment Board process (Report # 2006-007), except for the possible creation of an appeals process at the regional or state level.**

The committee felt that the creation of another level of property tax appeals process would add complexity and cost to the system and is not necessary to pursue.

Further Study

In its first four months of meetings the Property Tax Reform Committee discovered the scope of problems with Florida's property tax system and identified an array of possible responses, some of which might be components of a comprehensive solution. The committee will explore in more depth a number of solution options in order to more fully understand the benefits, costs, interactions with other potential changes, and implications for the tax policy criteria that the committee is charged with following. Table 2 at the end of the "Further Study" section provides a quick reference to how the various possible solutions will improve the tax system.

The committee will further study the ideas listed below. ***(Note: Further study does not constitute endorsement of the idea being studied.)***

1. Assess business property based on current use only, instead of "highest and best use" value.

2. Cap tax revenue growth for individual local governments. Specific mechanisms, such as tax rate caps, should be further examined in terms of their effectiveness, simplicity, and impacts on local government flexibility. There are likely to be interactive effects between government-level tax limitation mechanisms and other measures that limit growth of taxes on individual properties, such as caps on assessment increases.

3. Cap tax growth for individual properties. Current law caps growth in the valuation of homestead properties under certain circumstances, resulting in limited growth in taxes paid on individual homestead properties. Similar protections for non-homestead property should be explored. One example discussed by the committee is a permanent cap on annual valuations increases that stays with the property and is not affected by changes in ownership.

4. Full or partial replacement of the property tax with other forms of taxation. The committee recommends further study of this idea with particular attention given to business climate and economic development impacts, determination of appropriate levels of revenue replacement, administrative cost savings, incidence of tax changes relative to household income and geographic distributional consequences. Such a fundamental change in the Florida's tax structure should not proceed without full input from the business community and other affected parties.

5. Assess properties using a moving average value of several years' assessments instead of using just the current year's value.

6. Simplify the "Truth in Millage" notice to be more easily understood by taxpayers.

7. Increase the homestead exemption. As is true of caps on assessment growth, increases in the homestead exemption will result in individual taxpayer savings and a reduction in the overall tax base. The committee recommends further review of the variations of increasing the homestead exemption as a component or element of revenue control, both at the jurisdictional and individual taxpayer level.

8. Save Our Homes Portability. The committee recommends examination of Save Our Homes portability in all of its permutations, including but not limited to caps on transfer amounts, limits on the number of times a transfer can be made, and allowing portability only within one's home county, etc. Absent a broader solution to affordability and equity issues associated with the current tax structure, Save Our Homes portability options and implications will need to be better understood. Also, given the numerous administrative issues associated with portability, opinions of county property appraisers from around the state should be solicited.

9. Phase-out of the Save Our Homes tax preference. One idea for eventual elimination of the Save Our Homes tax preference is to grandfather in current beneficiaries but prevent future growth of the value of protected property. Over time, the effects of Save Our Homes preferences on equity and the tax base would disappear. This might be a component of a comprehensive solution needing further review.

10. Partial-Year assessment of improvements to real property.

11. Agricultural use classification improvements. The committee recommendation is to work with the agricultural industry, property appraisers, and other interested parties to look at ways to improve the current system.

12. Protecting homestead-related tax benefits when property is taken through the use of governmental powers of eminent domain.

13. Protecting homestead-related tax benefits during frequent relocations required by military service.

Table 2

Improvements to Property Tax Characteristics

Solution Idea	Equity: Homestead v. Homestead	Equity: Homestead v. Non-homestead	Affordability	Economic Competitiveness	Simplicity	Neutrality
Current Use Assessment		X	X	X		
Cap Tax Growth - Gov Unit			X	X		
Cap Tax Growth - Taxpayer		X	X	X		
Property Tax Replacement	X	X	X	X	X	X
Moving Avg Assessment			X	X		
TRIM Improvements			X	X		
Homestead Exempt Increase	X		X			
Save Our Homes Portability			X			X
Save Our Homes Phase-out	X	X			X	X

Appendices

Appendix A: Executive Orders

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 06-141

WHEREAS, homeowners in the State of Florida are struggling under the dual burden of increased insurance costs and an escalating property tax burden related to increased housing prices and damage caused by hurricanes and tropical storms; and

WHEREAS, a differential tax burden has developed between first-time homestead property owners and long-term homestead property owners and between homestead property owners and non-homestead property owners related to the effect of *Save Our Homes* provisions of s. 4(c), Art. VII of the State Constitution; and

WHEREAS, the State of Florida's population is currently estimated at more than 18 million and is projected to increase to nearly 25 million by 2025, one of the most rapid growth rates in the nation, potentially exacerbating the stratification of the tax burden; and

WHEREAS, *Save Our Homes* has not prevented large increases in property tax assessments when existing homeowners relocate within Florida, potentially affecting homeowners' willingness to purchase a new home; and

WHEREAS, statewide total property tax collections have far exceeded growth in total personal income; and

WHEREAS, HB 7109 amended Sections 193.155 and 196.031, Florida Statutes, and required the Department of Revenue and Office of Economic and Demographic Research to conduct a study of the state's property tax structure to analyze the impact of the current homestead exemptions and homestead assessment limitations on different types of property; and

WHEREAS, a committee is needed to provide input to the Department of Revenue and Office of Economic and Demographic Research from business associations, professional associations, governmental associations, citizens, and local, regional and state agencies to supplement their research and help formulate strategies for improving the property tax system in Florida; and

WHEREAS, beginning in 2007, the Taxation and Budget Reform Commission will be established, among other things, to review policy as it relates to the ability of state and local government to tax and fund governmental operations; to determine methods favored by the citizens of the state to fund the needs of the state, including alternative methods for raising sufficient revenues for the needs of the state; and to examine constitutional limitations on taxation and expenditures at the state and local level; and

WHEREAS, a committee is needed to bridge the efforts of the Department of Revenue and Office of Economic and Demographic Research to study property taxation and the inaugural efforts of the Taxation and Budget Reform Commission to study taxation and spending in the State of Florida;

NOW, THEREFORE, I, JEB BUSH, Governor of the State of Florida, by the powers vested in me by the Constitution and laws of the State of Florida, do hereby promulgate the following Executive Order, effective immediately:

1. I hereby create the "Property Tax Reform Committee," hereinafter referred to as the "Committee."

2. Members of the Committee and its Chairperson shall be appointed by and serve at the pleasure of the Governor. The Committee shall consist of 15 members, including two members of the Florida Senate recommended by the President of the Senate and two members of the Florida House of Representatives recommended by the Speaker of the House. Business of the Committee shall be conducted with a quorum consisting of a simple majority of the voting members. Votes of the Committee shall be passed upon a simple majority of those voting members present. The Chairperson of the Committee may appoint technical advisory subcommittees as needed to assist in the completion of the work of the Committee, and such subcommittees may include persons not on the Committee with special expertise or experience.

3. The Committee shall be a forum to discuss, at a minimum, the following:

   a. The consequences of current property tax exemptions and assessment differentials;

   b. The appropriateness, affordability and economic consequences of property taxation levels in Florida;

   c. Alternative means of taxation including, but not limited to, split-rate and land value taxation;

   d. Replacement alternatives to property taxation; and

   e. Limitations upon local government revenue and expenditures.

4. The Committee shall make recommendations to the Governor, President of the Senate, Speaker of the House, and Chairman of the Taxation and Budget

Reform Commission on how to improve property taxation and, in particular, shall recommend proposed legislation or constitutional amendments. Recommendations should be guided by, at a minimum, the following criteria:

a. Equity. The Florida tax system should treat similarly-situated taxpayers similarly;

b. Compliance. The Florida tax system should be simple and easy to understand, as well as fair, consistent and predictable in enforcement and collection;

c. Competitiveness. The Florida tax system should be responsive to interstate and international economic competition;

d. Economic Neutrality. The Florida tax system should minimize distortions in economic decision-making affecting investment, consumption, geographic location, and similar decisions; and

e. Fiscal Balance. The Florida tax system should maintain an appropriate balance between public funding needs and taxpayers' ability to pay.

5. To assist with its deliberations, the Committee shall solicit and consider public comment from as broad a variety of business associations, professional associations, governmental associations, agencies, businesses, and citizens as is reasonable.

6. Members of the Committee shall not receive compensation for fulfilling their duties as Committee members. Those members of the Committee who are employees of the State, if any, may receive reimbursement from their respective agencies to the extent allowed by Section 112.061, Florida Statutes.

7. The Executive Office of the Governor and Department of Revenue shall, with the assistance of other agencies, as appropriate, arrange for technical assistance and administrative support to the Committee and be responsible for payment for any operational, administrative, or organizational expenses incurred by the Committee.

8. All agencies under the control of the Governor are directed, and all other agencies and local governments are requested, to render assistance to, and cooperate with, the Committee.

9. The Committee shall meet at times and places designated by the Chairperson, with the first meeting to occur no later than August 15, 2006. Any vacancy occurring in the Committee shall be filled in the manner of the original appointment.

10. The Committee shall present an Initial Report no later than December 15, 2006, a Mid-term Report no later than March 1, 2007, and Final Report of its findings and recommendations no later than December 1, 2007, to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Chairman of the Taxation and Budget Reform Commission.

11. The Committee shall cease to exist upon submission of its Final Report.

IN TESTIMONY WHEREOF, I have hereunto set my hand and have caused the Great Seal of the State of Florida to be affixed at Tallahassee, The Capitol, this ____the day of June, 2006.

____
GOVERNOR

ATTEST:

____
SECRETARY OF STATE

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 06-147

(Amends Executive Order No. 06-141)

WHEREAS, Executive Order Number 06-141 created the Governor's Property Tax Reform Committee and ordered the Committee to submit various reports of recommendations and/or proposed legislation or constitutional amendments to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Chairman of the Taxation and Budget Reform Commission; and

WHEREAS, the Committee can best serve its purpose by modifying the composition of its board;

NOW, THEREFORE, I, JEB BUSH, Governor of the State of Florida, do hereby promulgate the following amendment to Executive Order No. 06-141, effective immediately:

The Committee shall consist of 15 members, including two individuals recommended by the President of the Senate and two individuals recommended by the Speaker of the House.

Except as amended herein, Executive Order No. 06-141 is attached, incorporated, ratified and reaffirmed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and have caused the Great Seal of the State of Florida to be affixed at Tallahassee, The Capitol, this 26th day of June, 2006.

GOVERNOR

ATTEST:

SECRETARY OF STATE

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 06-203

(Amending Executive Order 06-141)

WHEREAS, on June 21, 2006, I issued Executive Order 06-141 creating the Property Tax Reform Committee; and

WHEREAS, this amendment is necessary to improve the functioning of the committee;

NOW, THEREFORE, I, JEB BUSH, Governor of the State of Florida, by the powers vested in me by the Constitution and laws of the State of Florida, do hereby promulgate the following Executive Order, effective immediately:

Section 1. Number 6 of Executive Order 06-141 is amended to read as follows:

6. Members of the Committee shall not receive compensation for fulfilling their duties as Committee members. However, when requested, actual expenses necessarily incurred in the performance of the Committee's business including transportation, meals, lodging and incidental expenses allowable under section 112.061, Florida Statutes, will be reimbursed. Those members of the Committee who are employees of the State, if any, may receive reimbursement from their respective agencies to the extent allowed by Section 112.061, Florida Statutes.

Section 2. Except as amended herein, Executive Order 06-141 is ratified and reaffirmed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and have caused the Great Seal of the State of Florida to be affixed at Tallahassee, The Capitol, this 29th day of August, 2006.

GOVERNOR

ATTEST:

SECRETARY OF STATE

Appendix B: Committee Member List

- Donna Arduin of Fort Lauderdale, Partner and President, Arduin, Laffer & Moore Econometrics, LLC.
- Stephen Auger of Tallahassee, Executive Director, Florida Housing Finance Corporation.
- Barney Barnett of Lakeland, Vice Chairman, Publix Super Markets, Inc.
- Don DeFosset of Tampa, retired, appointed as Chairman.
- Bill Donegan of Maitland, Orange County Property Appraiser.
- Representative Carlos Lopez-Cantera of Miami.
- Charles Milsted of Tallahassee, Associate State Director, AARP.
- Representative Dave Murzin of Pensacola.
- Dennis Nelson of Wellington, Realtor, Keyes Company.
- Senator Burt Saunders of Naples.
- Cynthia Shelton of Lake Mary, Director of Investment Sales, Colliers Arnold.
- Richard Spears of Orlando, retired.
- Robert Turner of Tampa, Hillsborough County Property Appraiser.
- Tony Villamil of Coral Gables, Chief Executive Officer, The Washington Economics Group.
- William Walker of Coral Gables, Partner, White & Case, LLP.

Appendix C: Meeting Minutes

PROPERTY TAX REFORM COMMITTEE MEETING
August 15, 2006
Room 37, Senate Office Building
Tallahassee, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Stephen Auger
Barney Barnett
Bill Donegan
Representative Carlos Lopez-Cantera (by telephone)
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders (by telephone)
Cynthia Shelton
Richard Spears
Robert Turner
William Walker (by telephone)

Member Absent: Tony Villamil

Agenda Items:

1. **Opening Remarks**
   - Chairman Don DeFosset welcomed everyone to the meeting.
   - Members introduced themselves.

2. **Review of the Committee's charge**
   - Presented by Dr. Don Langston, Finance and Economic Analysis Policy Coordinator for Governor Jeb Bush.

3. **Review of Florida's Ethics and Sunshine Laws**
   - Presented by Nate Adams, General Counsel for Governor Jeb Bush.

4. **Property Tax Overview**
   - Presented by Dr. Don Langston
   - The presentation was an overview of the current property tax structure including historical trends in taxable value, tax collections, tax rates and shifts in the composition of the tax base. The presentation also included

comparisons of how the Save Our Homes benefits vary among homesteads as well as geographical areas of the state.

- The floor was opened for questions. The members focused much of the discussion on how Florida's property tax system compares with other states; how it impacts economic development; and what other states are doing with capped systems such as "Save Our Homes."
- Staff committed to beginning research on some of these issues for future consideration by the Committee.

5. **Scope and Timing of Legislatively Authorized Property Tax Study**
    - Presented by Amy Baker, Director of the Legislature's Office of Economic and Demographic Research (EDR)
    - The presentation was a review of House Bill 7109 which passed the 2006 Legislature.
    - This bill authorizes the Department of Revenue and the Office of Economic and Demographic Research to conduct a study of Florida's property tax structure and report its findings to the Legislature.
    - The floor was opened for questions. The discussion focused on the difficulty taxpayers often have in understanding their annual TRIM notices. A broader study of the entire local government budget process was also suggested.

6. **Other Related Research Efforts**
    - Bob McKee, Fiscal Policy Director for the Florida Association of Counties presented a brief overview of a study the Association plans to conduct on county government expenditures. The study is being designed to take a closer look at recent budget increases. He noted that there have been significant issues in recent years that have placed a strain on local government budgets including input cost increases, domestic security, economic development (SCRIPPS) and hurricanes. The plan is to look at how these and other issues have influenced the increases in local government budgets. The study is intended to be complete shortly after the end of the year.
    - The floor was opened for questions. The members requested additional research comparing growth in local government spending to that of the state government.

7. **Development of Action Plan**
    - The Committee members had an open discussion of issues pertinent to the Committee.
        - Future Committee Meetings—The Committee agreed to meet monthly, for the next several months, in venues located around the state to take public testimony. Staff was directed to arrange a schedule of future meetings. Staff was also directed to recommend to the Chairman a set of rules to guide the conduct of future public hearings.

8. **Public Comment**
   - Speakers:
     - Mr. Kenneth Wilkinson, Lee County Property Appraiser
     - Roger H. Wilson, Retired Legislator
     - Nancy Stephens, Florida Minerals and Chemistry Council and the Manufacturer's Association of Florida
     - Mr. Bob McKee, Florida Association of Counties
     - Sheila Anderson, Principal-Broker
     - Dominic Calabro, Florida TaxWatch

9. **Meeting Adjourned**

PROPERTY TAX REFORM COMMITTEE MEETING
September 20, 2006
Orlando City Hall
Orlando, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Barney Barnett (by telephone)
Bill Donegan
Representative Carlos Lopez-Cantera
Charles Milsted
Representative Dave Murzin
Dennis Nelson (by telephone)
Senator Burt Saunders
Cynthia Shelton
Richard Spears
Robert Turner
Tony Villamil
William Walker

Member Absent: Stephen Auger

Agenda Items:

(1) Opening Remarks

- Chairman DeFosset welcomed everyone to the meeting. The Chairman reviewed the rules that would be followed during the public testimony. The rules were as follows:
  - The presiding chair shall determine the total amount of time to be allotted for public testimony.
  - The presiding chair shall set such time limits for individual testimony as the chair finds reasonable under the circumstances.
  - In order to address the committee, a speaker must first complete and submit a public appearance record to the committee.
  - Speakers will be called in the order in which public appearance records are received.
  - Repetitious testimony is discouraged.
  - Speakers shall limit their testimony to topics within the purview of the committee, as set forth in the establishing executive order (as amended).

(2) Approval of August 15, 2006 Meeting Minutes

- The August 15, 2006 minutes were approved by the Committee.

(3) Department of Revenue's Role in the Property Tax Process

- Presented by James McAdams, Dept. of Revenue
- The presentation was an overview of the property tax process and the Department of Revenue's oversight of the process. There are eight steps to the process starting with the property appraisal process and ending with the funding of local government services.
- The floor was opened for questions. The members expressed interest in Department of Revenue providing more history on property tax levies and collections.

(4) Value Adjustment Board Performance Audit Results

- Presented by Hardee Ratliff, Office of the Auditor General
- The purpose of the audit was to review the administration of the value adjustment board process by the Department of Revenue, the value adjustment boards, and the clerks of the court.
- The Auditor General's audit included twelve recommendations for improving the process. The complete report can be found on the Auditor General's web site http://www.myflorida.com/audgen/pages/subjects/locgov.

(5) Perspectives on the Save Our Homes Amendment

- Ken Wilkinson, Lee County Property Appraiser, presented some history of the "Save Our Homes" constitutional amendment. He also announced the launch of an initiative drive to allow portability of "Save Our Homes" benefits. A document was provided which explained his approach to allowing homeowner's to transfer a portion of their property tax protection to newly purchased homes.

(6) Bay County Property Tax Issues and Possible Solutions

- Rick Barnett, Bay County Property Appraiser, requested permission to allow representatives from Bay County to speak first.
- Mr. Mike Nelson, Bay County Commission Chairman, expressed his concern with limiting the growth in county budgets and offered suggestions to increase homestead exemption, allow portability within a county, implement a local option cap for all properties, allow local governments to implement a local sales tax without a referendum and limit the use of community redevelopment areas (handout).
- Mr. Glen R. McDonald, Chairman, Bay County Chamber of Commerce, supports the changes that Mr. Barnett will be putting forth during his testimony.
- Mr. Barnett took back the floor and outlined his plan for changing the property tax structure which included a list of ten potential changes ranging from increasing the homestead exemption by $25,000 to limiting budget increases for all taxing authorities. Mr. Barnett provided a letter to the committee members that outlined each of the ten proposals (handout).

Break for Lunch

Afternoon Session:

(1) Requested Public Input/Comment

- Mr. Ed McIntosh, owner of a winter home on Nettles Island in St. Lucie County, gave testimony on behalf of non-homesteaded property owners there. He encouraged the committee to recognize that the issue is not just about homesteaders. He emphasized the need to reform the two-tiered tax system in Florida (handout).
- Vicki Weber, tax consultant for the Florida Chamber of Commerce, gave a perspective of the property tax burden for business owners. Ms. Weber gave some insights into how the business community is reacting to the higher cost of doing business in the state, which includes the higher property tax burden. She also provided information regarding the issues that the business community would like to see addressed by the committee (handout).

(2) Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Ted Morris – Center for the Study of Economics
  2) Richard Langdon – Indian River Drive Freeholders, Inc.
  3) Linda Hayward – Hernando County Citizens
  4) Robert Zulega –self
  5) Dwight D. Lewis – Volusia County Councilman (handout)
  6) Larry Guest -- self
  7) Doug Guetzloe – Ax The Tax
  8) Roger Baumgartner – self
  9) Duncan B. Dowling III – Blue Surf Condo Association, Inc.
  10) Julius Bruggeman – property owners (handout)
  11) R. M. Ludwic – self
  12) Kathy Torontali – Skycrest Subdivision (handout)
  13) Bruce Raynor – self
  14) James W. Clark – self (handout)
  15) Judy Elam --self
  16) Wilbur Lewis Hallock "Jim" -- self
  17) Edwina Nelon -- Homeowners Against Runaway Taxation
  18) Jane Bunkowske -- self
  19) Kathleen Clark -- self
  20) Amy Smelser – self, husband taxpayers & residents
  21) Tom Page – self
  22) Chris Adamik – self

(3) Closing Remarks

- Representative Fred Brummer, Chairman of the House Finance and Tax Committee, sent a letter to the committee and requested that it be recorded into the minutes. Chairman DeFosset indicated that it would be done.

- Chairman DeFosset recapped the items that he felt the staff should research.
    - Composition of statewide taxable value by type of property;
    - Revenue overages for local governments;
    - More input from cities and counties regarding their recent budgets;
    - Administrative/practical issues relating to local government revenue or spending caps;
    - Land value taxation;
    - Year over year spending comparisons for counties, municipalities and special districts for a 10 year period.
- Richard Spears requested information regarding the value of a dollar compared to 1981.
- Representative Murzin requested information regarding the sensitivity of tax roll assessments to down turns in real-estate markets.
- Donna Arduin requested research on what happens to the property tax needs if counties are limited to roll back rate plus inflation.

Meeting adjourned

PROPERTY TAX REFORM COMMITTEE MEETING
October 17, 2006
Miami-Dade College
Miami, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Stephen Auger
Barney Barnett
Bill Donegan
Representative Carlos Lopez-Cantera
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders
Cynthia Shelton
Richard Spears
Robert Turner
Tony Villamil
William Walker

Agenda Items:

(1) Opening Remarks

- Eduardo J. Padron, President, Miami-Dade Community College welcomed the Committee to Miami.
    - Chairman DeFosset brought the Committee to order. The Chairman reviewed the rules that would be followed during the public testimony.

(2) Approval of September 20, 2006 Meeting Minutes

(4) The September 20, 2006 minutes were approved by the Committee.

(5) Local Government Expenditure Growth

- Presented by Dr. Don Langston, Executive Office of the Governor.
- The presentation was an overview of local government spending compared to state government spending.

(3) Miami-Dade County Revenue and Expenditure Experience

- Presented by Mr. George Burgess, County Manager, Miami-Dade County.
- Mr. Burgess' presentation outlined the recent property tax roll growth, its impact on Miami-Dade County's budget, the areas most affected by the tax roll growth, and potential solutions.

- Mr. Frank Jacobs, Miami-Dade County Property Appraiser, came to the podium to address specific questions regarding appraisal processes in Miami-Dade County.

(4) Revenue Caps on Local Government Spending

- Dr. Don Langston, Executive Office of the Governor, reviewed various decision points and alternative solutions that should be considered by the Committee as they discuss the issue of revenue caps on local governments.

Break for Lunch

Afternoon Session:

(5) Property Tax Reform Solutions/Decision Matrix

- Dr. Don Langston, Executive Office of the Governor, presented a list of the various problems associated with property taxation that have been identified to date by the Committee. Potential solutions were presented for each problem.
- The stated intention of this information that it should serve as a decision-making tool for the committee in its future deliberations.

(6) Portability and Property Tax Reform

- Representative Domino gave a presentation on his plan for "Save Our Homes" portability

(7) Portability – Implementation Issues

- Mr. Bill Donegan gave a presentation on another version of "Save Our Homes" portability and some of the implementation issues that will need to be addressed should portability become a recommendation.

Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Morgan Gilreath – Volusia County Property Appraiser
  2) Javier Hernanez-Lichti – Baptist Health South
  3) Martha Carley – Property Manager – Carley's Mobile Home Park
  4) Henry Patel – Hotel Owner (spoke on behalf of several others in room)
  5) Deborah Cimadevilla – Multi Family Apartment Building Owner
  6) Barbara Carlson – Homestead, Florida
  7) John Talamos – Coral Gables, Florida
  8) Caroline Gaynor – Director – Shorecrest Home Owners
  9) Erik Tietig – Vice President – Pine Island Nursery
  10) Gary Dufek – Miami, Florida
  11) Jeffrey Mandler – Miami, Florida
  12) Delores Roth -- realtor
  13) Elizabeth Cimadevilla – Rental Property Owner
  14) Ricardo Barthelemy – Miami, Florida

15) Nancy Hogan – Commissioner, Ocean Ridge, Florida
16) Katie Edwards – Executive Director, Dade County Farm Bureau
17) Jerry Flick – Coral Gables, Florida

(8) Closing Remarks

- Chairman DeFosset directed staff to begin checking into committee meeting dates early in 2007.
- Committee members made requests for further research in the following areas:
    - 1st time home buyers
    - Property taxation practices in other states

Meeting adjourned

PROPERTY TAX REFORM COMMITTEE MEETING
November 17, 2006
Hillsborough County Commission chambers
Tampa, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Stephen Auger
Bill Donegan
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders
Cynthia Shelton (by Phone)
Richard Spears
Robert Turner
Tony Villamil (by Phone)
William Walker

Member Absent: Barney Barnett

Agenda Items:

Opening Remarks

- Chairman DeFosset brought the Committee to order. The Chairman outlined the issues that have been discussed to date.

Approval of October 17, 2006 Meeting Minutes

(6) The October 17, 2006 minutes were approved by the Committee.

Community Redevelopment Areas

- Presented by Ms. Bonnie Wise, Finance Director, City of Tampa.
- The purpose of the presentation was to educate the Committee members about Community Redevelopment Areas – what they are, how they are funded and why they are important.

Understanding Tax and Expenditure Limitations

- Presented by Mr. Eric Johnson, Budget Director, Hillsborough County.
- This presentation gave a history of tax and expenditure limitations and their impact on government spending.

Property Tax Reform Issues and Considerations

- Mr. Jim Smith, Pinellas County Property Appraiser gave testimony of his experiences with property tax and appraiser issues.

Break for Lunch

Afternoon Session:

Agricultural Classification Issues

- Mr. Michael Prestridge, Chief of Staff, Orange County Property Appraiser, gave a presentation on issues that Orange County is facing in the area of agriculture exemptions and the impact they are having on the tax rolls.

Canadian Snowbird Association Issues with Property Tax

- Mr. Gerry Brissenden, President, Canadian Snowbird Association, gave an overview of the property tax concerns that Snowbird's have. He also shared with the Committee recommendations for the Committee to consider when preparing their report.
- Mr. Wallace Weylie, legal counsel for the Association, answered questions for the Committee members.

Palm Beach County Property Tax Reform Proposals

Commissioner Warren Newell gave a presentation on the consensus recommendations of the Palm Beach County Board of County Commissioners to address the inequities that now exist in the current property tax system.

Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Will Shepherd
  2) Martha Johnson
  3) Delfin Fernandez
  4) Frank Millen
  5) Paul Flora
  6) Joseph Caetano
  7) Gary Brown
  8) Ralph Bowers
  9) Todd Jones
  10) Mike Dyer
  11) Betsy Valentine
  12) Mary Wilkerson
  13) Ford Smith
  14) Kenneth Hoyt
  15) Phil Tenn, Sr.
  16) Cristy Fish
  17) Al LoParrino
  18) Kay Hanks
  19) Mr. Kim Adams
  20) Chuck Aller
  21) Tom Aderhold

22) Bob McKee
23) James Nelson
24) Ron Weaver
25) Penny Farrar
26) Tom Mixson

Closing Remarks

- The Committee agreed that there should be one more meeting prior to the December 15 meeting. November 29 in Orlando was tentatively set as the date and location.

Meeting adjourned

PROPERTY TAX REFORM COMMITTEE MEETING
November 29, 2006
Orlando International Airport
Orlando, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Barney Barnett
Bill Donegan
Representative Carlos Lopez-Cantera
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders (by Phone)
Cynthia Shelton
Richard Spears
Robert Turner
Tony Villamil
William Walker

Member Absent: Stephen Auger

Agenda Items:

Opening Remarks

- Chairman DeFosset brought the Committee to order. The Chairman outlined the issues that have been discussed to date.

Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Penny Herman
  2) Trey Price
  3) Jon Pospisil
  4) Gail Boettger
  5) Ken Wilkinson
  6) Mike Armstrong
  7) Don Oblazney
  8) Lloyd Lee

Presentation of Draft Preliminary Report

(7) Presented by Dr. Donald Langston, Policy Coordinator, Office of Planning and Budgeting, Office of the Governor.

(8) Dr. Langston reviewed the report with the committee and took comments.

Discussion of Recommendations for Inclusion in Preliminary Report

(9) Chairman DeFosset led the committee in a discussion of recommendations to include in the committee's preliminary report.

(10) The committee agreed to a series of recommendations for inclusion in the report and directed staff to complete the draft.

Closing Remarks

- The Committee agreed that another meeting should be scheduled in January and that Governor-elect Crist should be invited.

Meeting adjourned

Property Tax Reform Committee: Preliminary Report and Recommendations

Presentation to the Committee on State Affairs

January 24, 2007

Property Tax Reform Committee

- Established by Governor's Executive Order
  - Inform the property tax debate
  - Bridge legislative study with the Taxation and Budget Reform Commission
- Charge to the Committee:
  - Make recommendations to improve property taxation in Florida
  - Broad purview
  - Guiding policy criteria
  - Public input

Property Tax: The Most Important Local Revenue Source

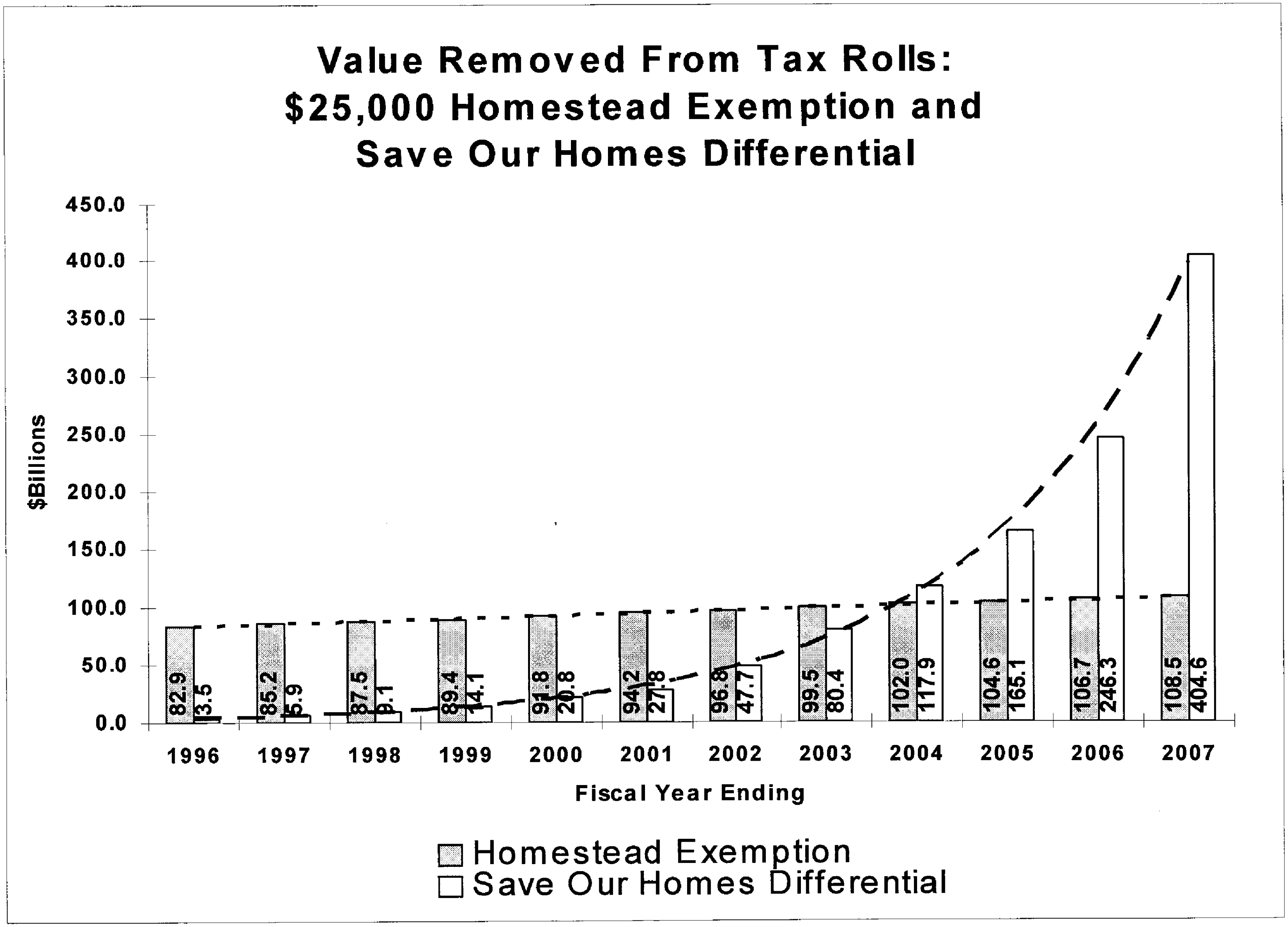
- The largest single tax revenue source for government in Florida--$30.5 billion levied in FY 2006-07.

	Property Tax as a percent of Local Government Revenues (FY 2003-04):	
	Total Revenue	**Tax Revenue**
Counties	**31%**	**74%**
Cities	**18%**	**56%**
School Districts*	**38%**	**95%**
Special Districts	**20%**	**99%**

(*) School data from FY 2004-05

Property Tax: Founded in the Florida Constitution

- The Florida Constitution:
  - Prohibits state tax on real and tangible personal property
  - Sets maximum tax rates
  - Determines valuation criteria (market value)
  - Allows for preferential treatment of certain types of property (exemptions & classifications)


Value Removed From Tax Rolls:
$25,000 Homestead Exemption and
Save Our Homes Differential
$Billions
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
82.9
3.5
85.2
5.9
87.5
9.1
89.4
14.1
91.8
20.8
94.2
27.8
96.8
47.7
99.5
80.4
102.0
117.9
104.6
165.1
106.7
246.3
108.5
404.6
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Fiscal Year Ending
Homestead Exemption
Save Our Homes Differential

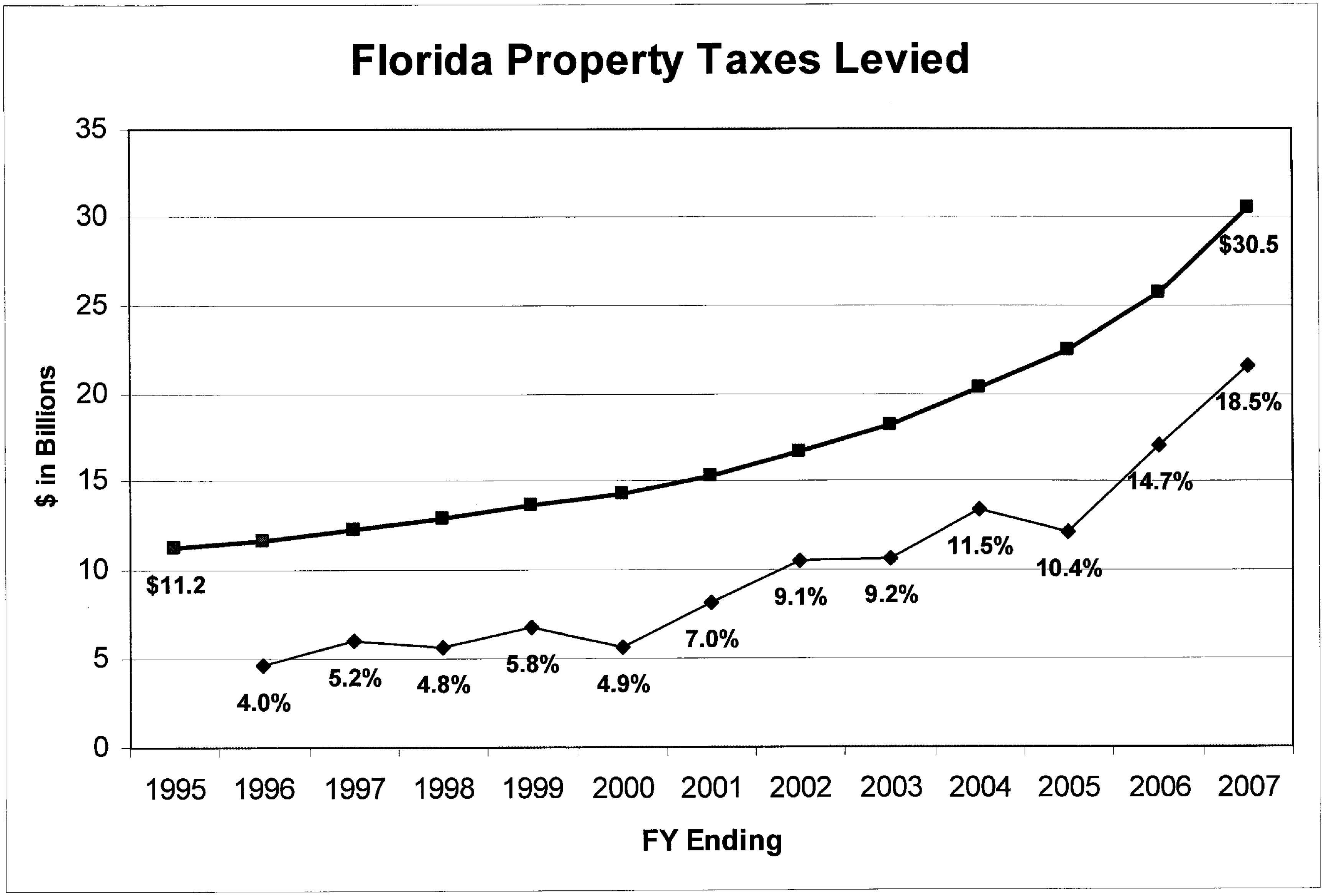
Taxpayers Have Three Main Areas of Concern

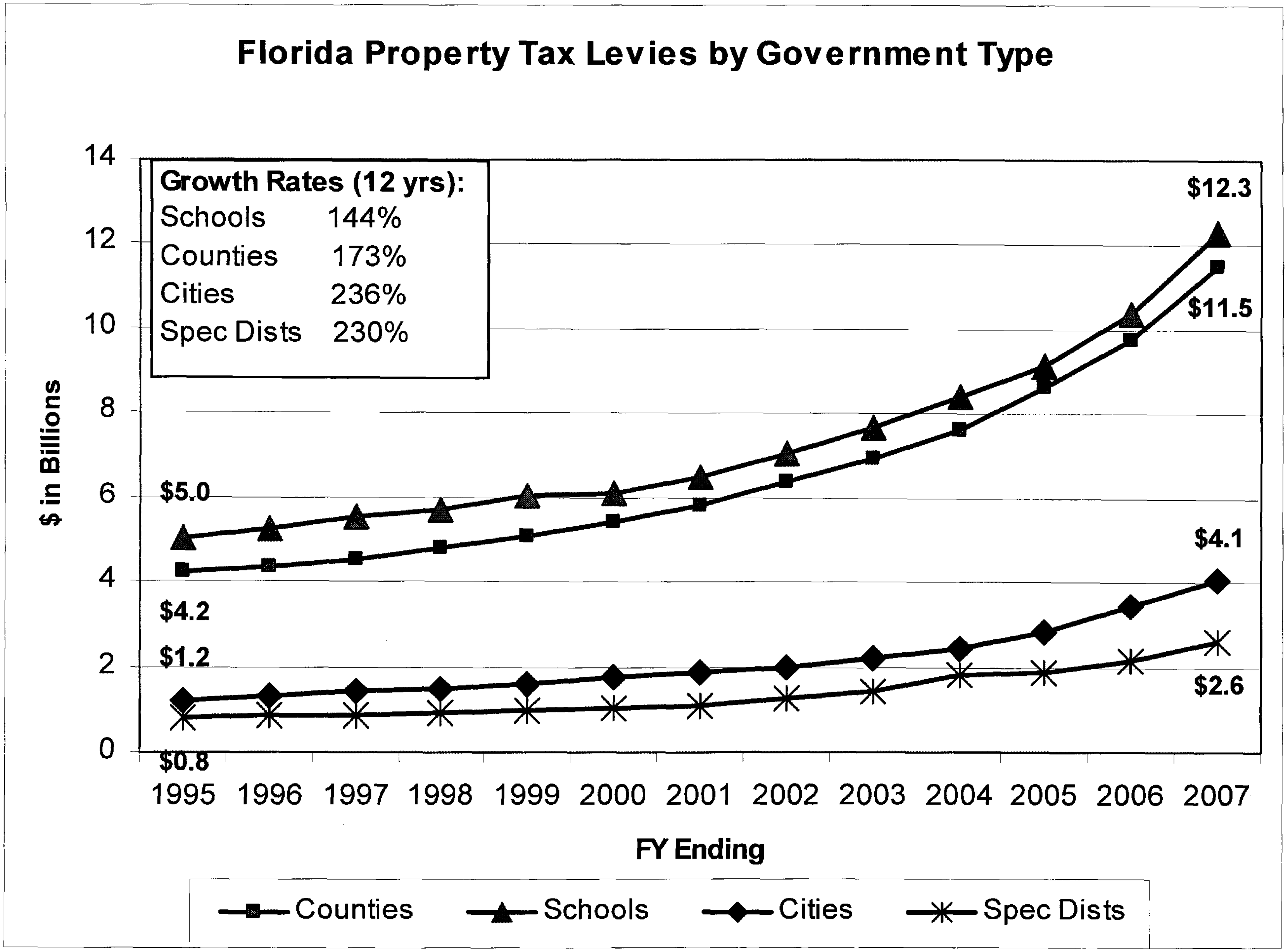
- **AFFORDABILITY**—Property taxes are no longer affordable for many taxpayers.

- **THE "LOCK-IN" EFFECT**—Long-time permanent resident homeowners are finding it difficult or cost prohibitive to move to another home within Florida.

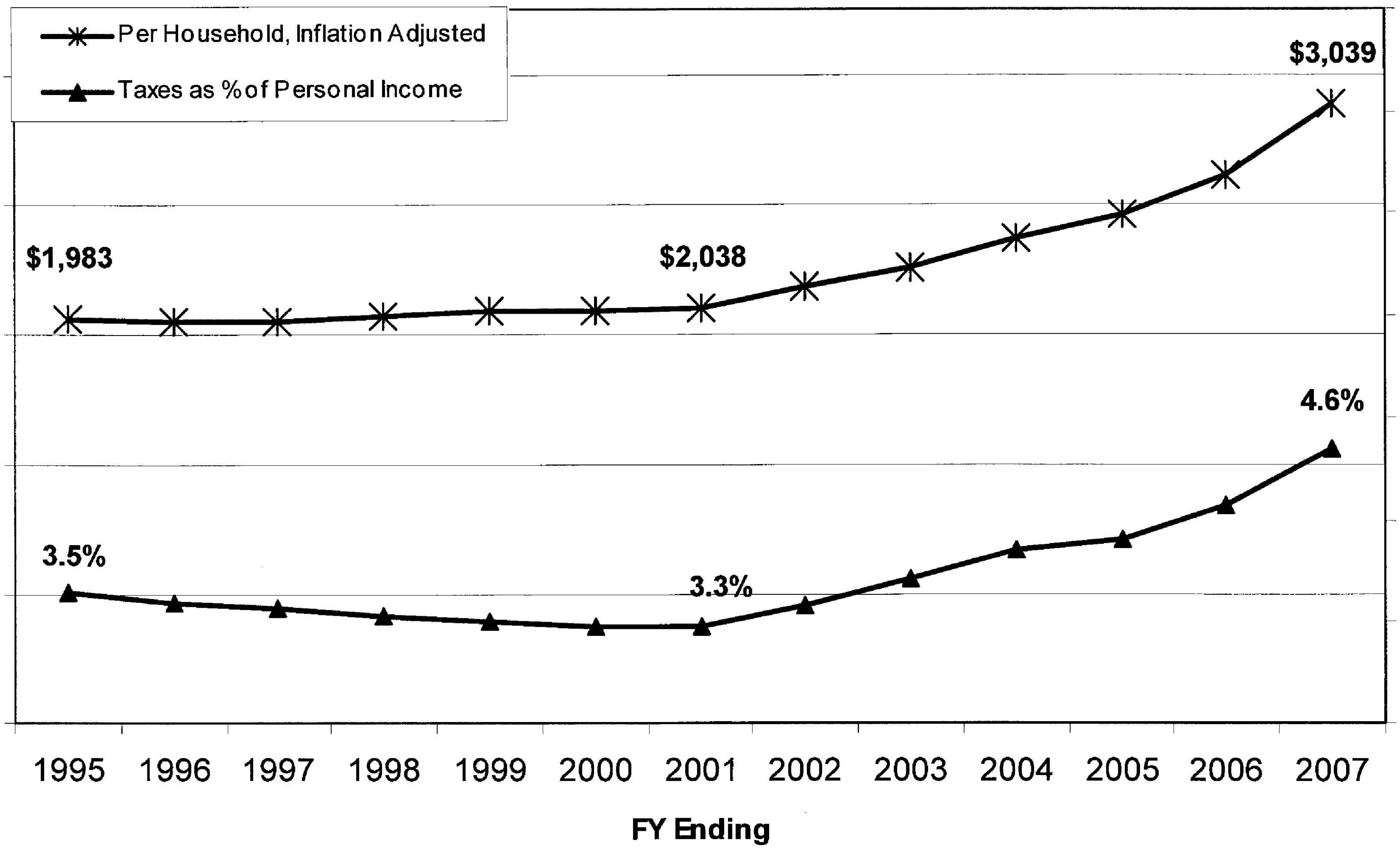
- **EQUITY**—Florida's property tax system creates and sustains significant inequities among taxpayers.

Affordability

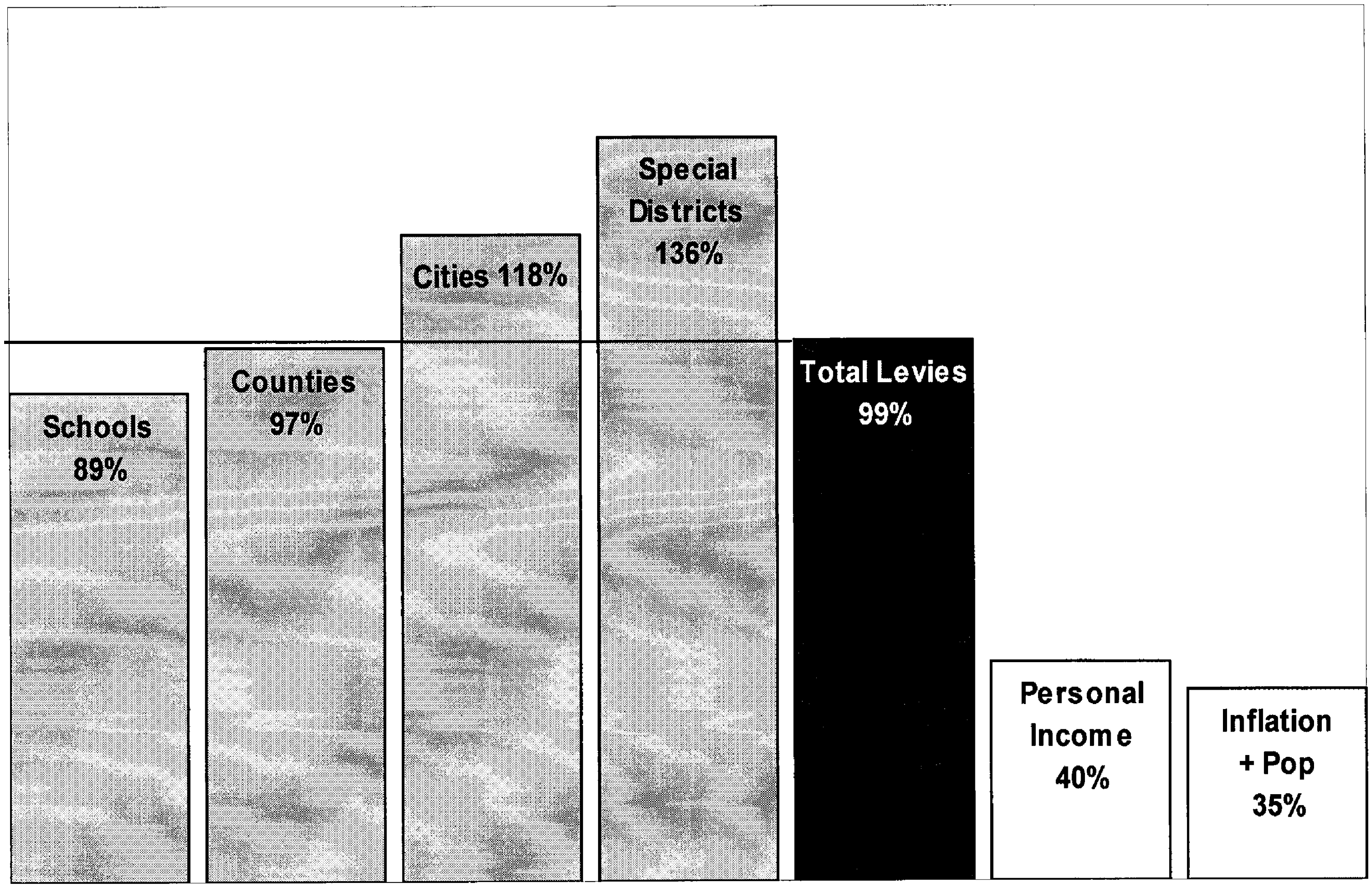

Florida Property Taxes Levied
$ in Billions
35
30
25
20
15
10
5
0
$11.2
$30.5
4.0%
5.2%
4.8%
5.8%
4.9%
7.0%
9.1%
9.2%
11.5%
10.4%
14.7%
18.5%
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending


Florida Property Tax Levies by Government Type
Growth Rates (12 yrs):
Schools 144%
Counties 173%
Cities 236%
Spec Dists 230%
$ in Billions
14
12
10
8
6
4
2
0
$12.3
$11.5
$5.0
$4.2
$4.1
$1.2
$2.6
$0.8
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending
Counties
Schools
Cities
Spec Dists

Florida Property Tax Levies: Per Household and as a Percent of Personal Income

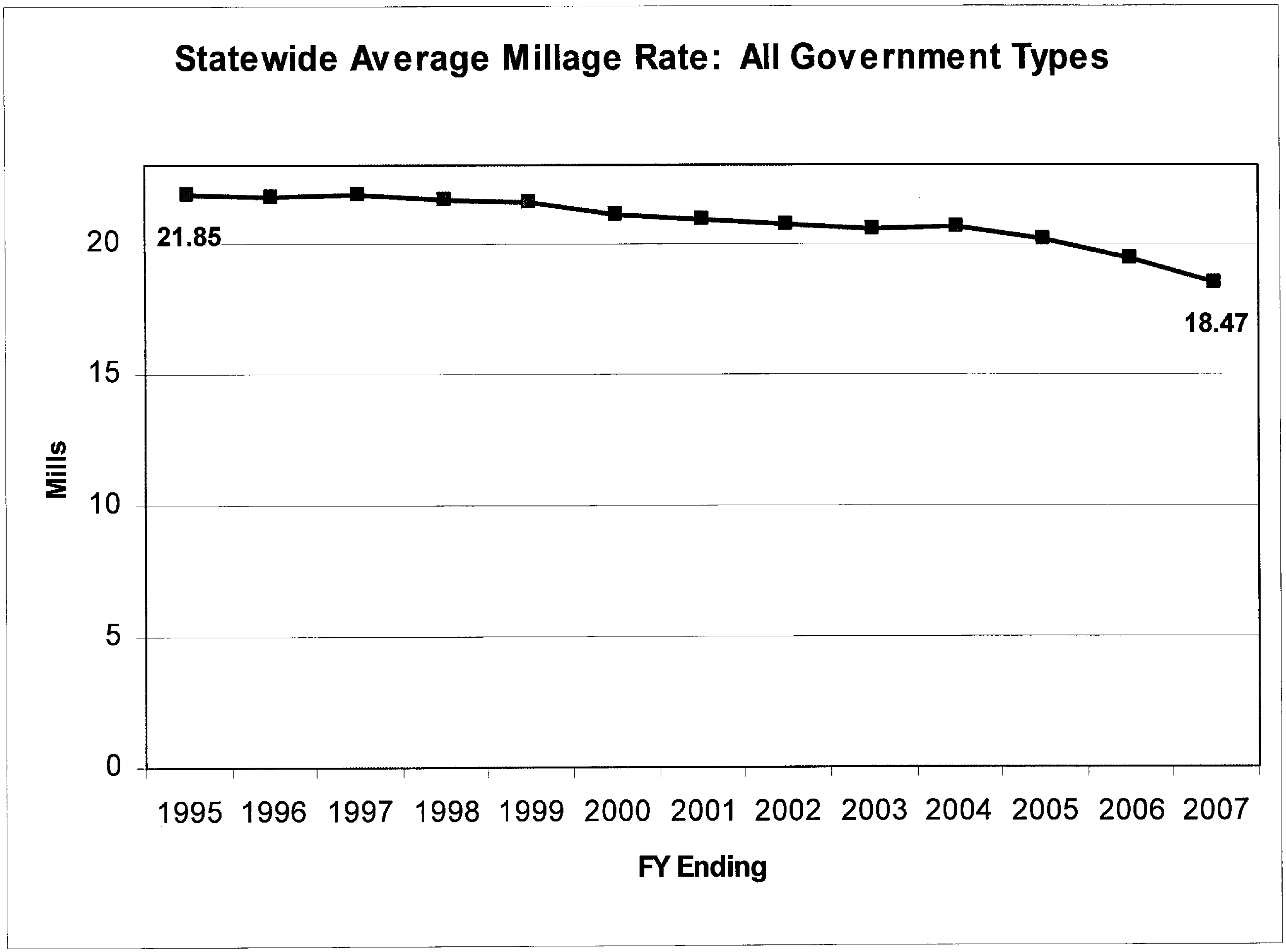


Florida Property Tax Levies
Cumulative Growth Rates: FY 2001 - FY 2007

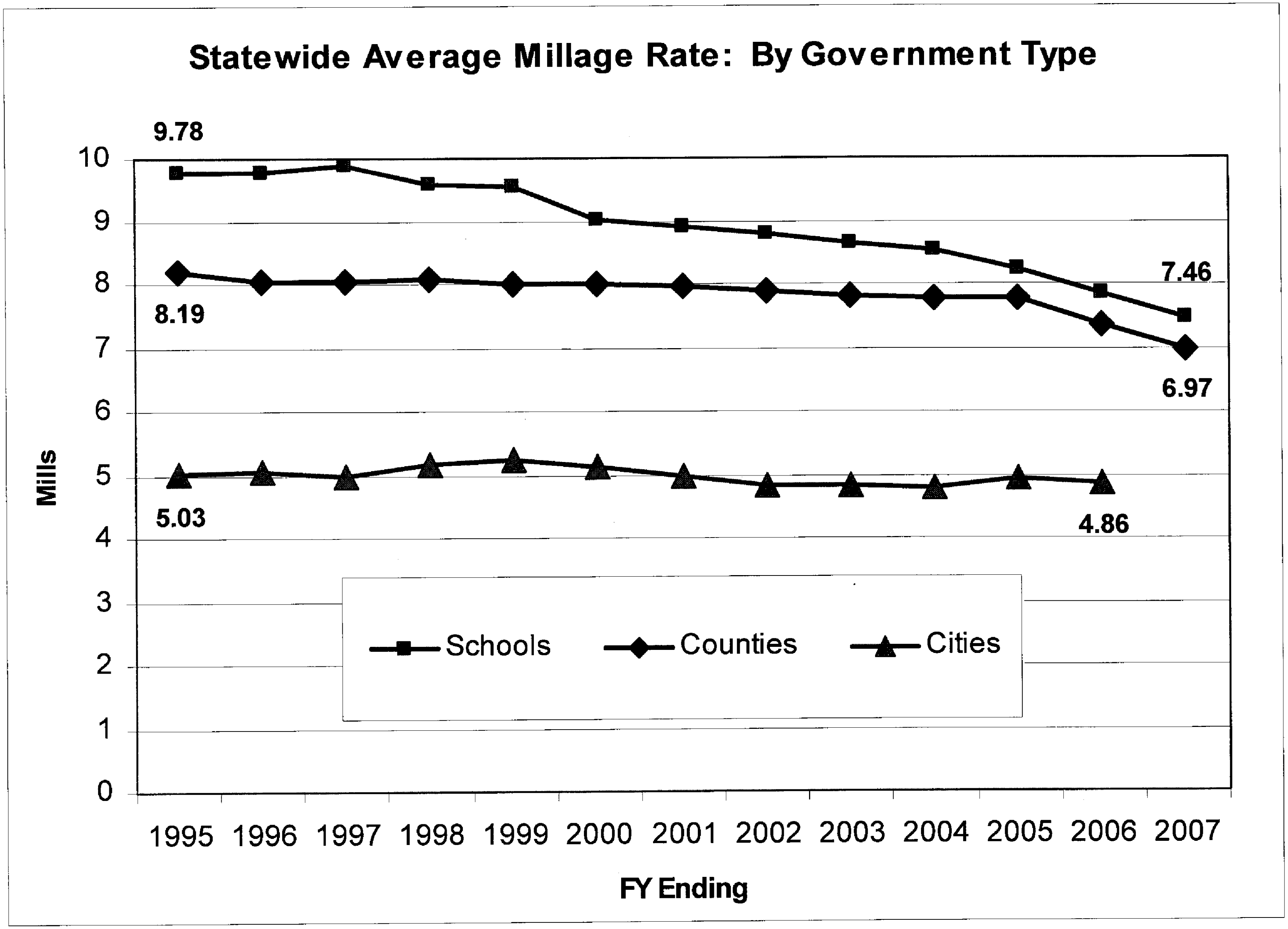


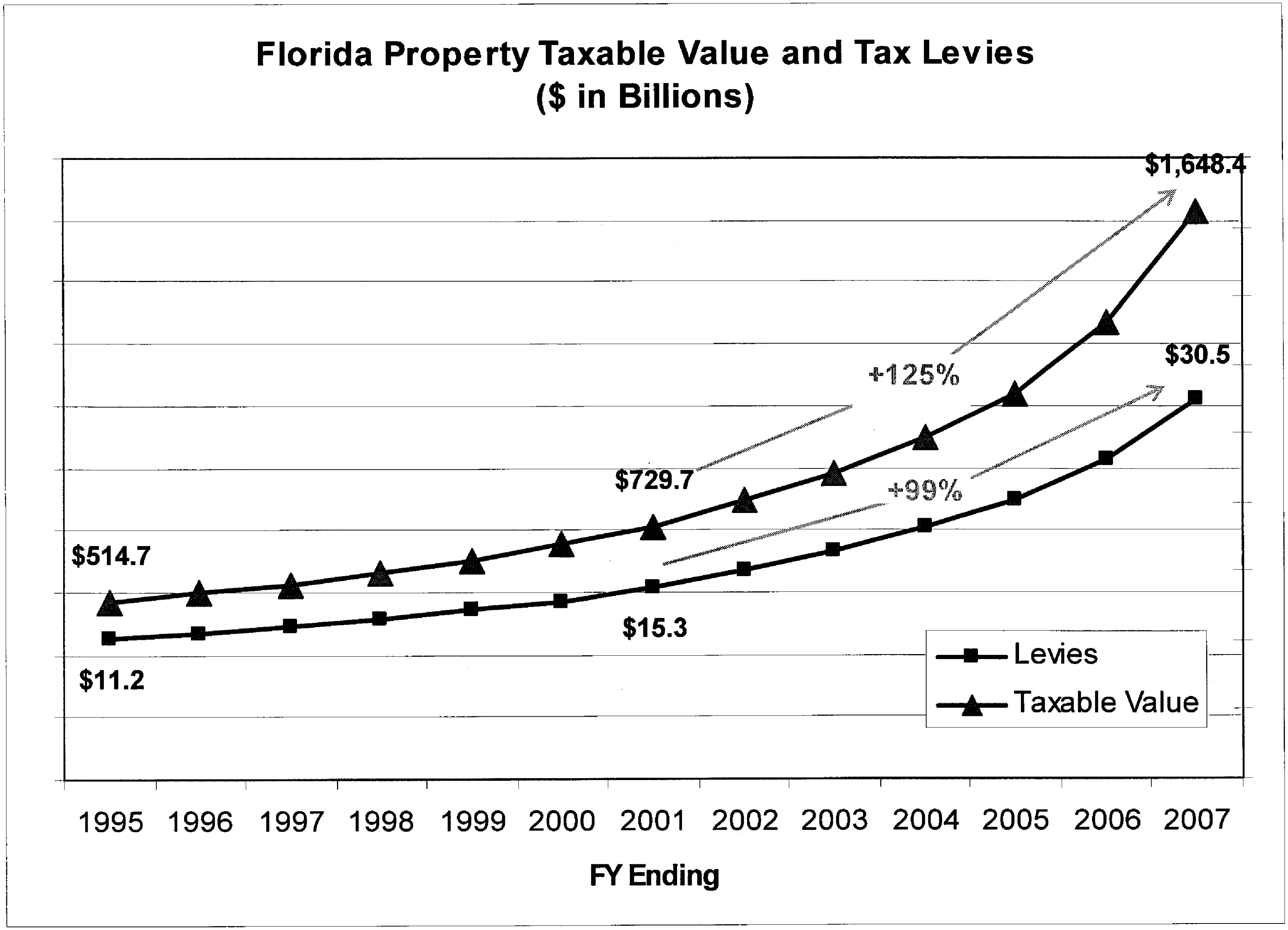
Affordability Concerns Reflect the Combination of Two Factors:

- Rapid assessment (valuation) increases
- Relatively small tax rate reductions



Statewide Average Millage Rate: All Government Types
21.85
18.47
Mills
20
15
10
5
0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
FY Ending


Statewide Average Millage Rate: By Government Type
9.78
8.19
5.03
7.46
6.97
4.86
10
9
8
7
6
5
4
3
2
1
0
Mills
Schools
Counties
Cities
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending


Florida Property Taxable Value and Tax Levies
($ in Billions)
$1,648.4
$30.5
+125%
$729.7
+99%
$514.7
$15.3
$11.2
Levies
Taxable Value
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending

Options to Improve Affordability:

- Assess non-homestead property based on current use only, instead of true market value.
- Cap growth rates for individual properties.
- Cap spending for individual local governments.
- Assess property using a five-year moving average.
- Improve budgetary discipline from taxpayers.
- Increase the homestead exemption.
- Replace the property tax with an alternative revenue source.

The “Lock-In” Effect

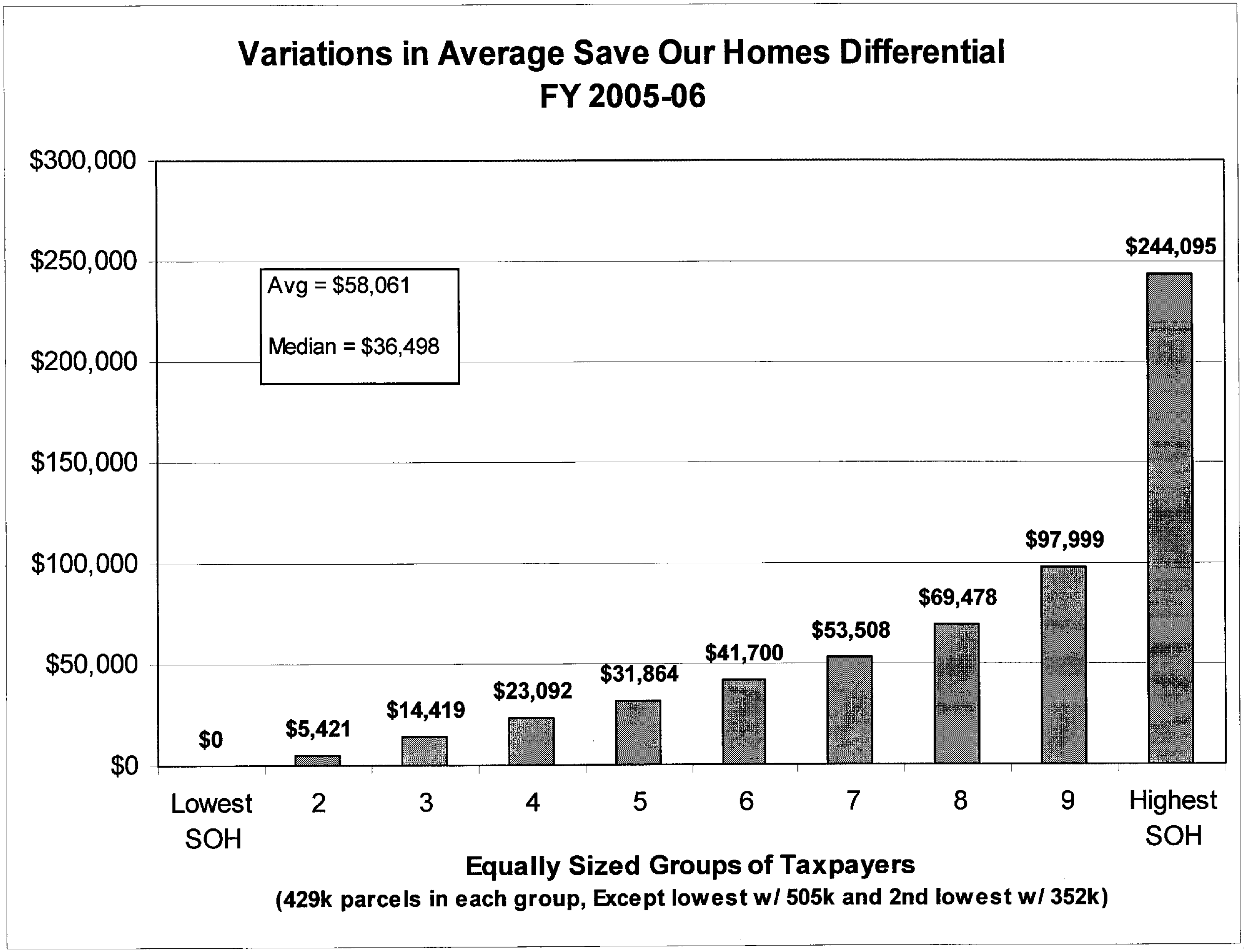
Save Our Homes benefits are lost when home ownership changes

- Florida households are discouraged from using property in the manner most appropriate to individual preferences and circumstances.
- Average Save Our Homes "differential" = $92,058 (2006-07); a $1,700 tax savings at the average statewide tax rate.

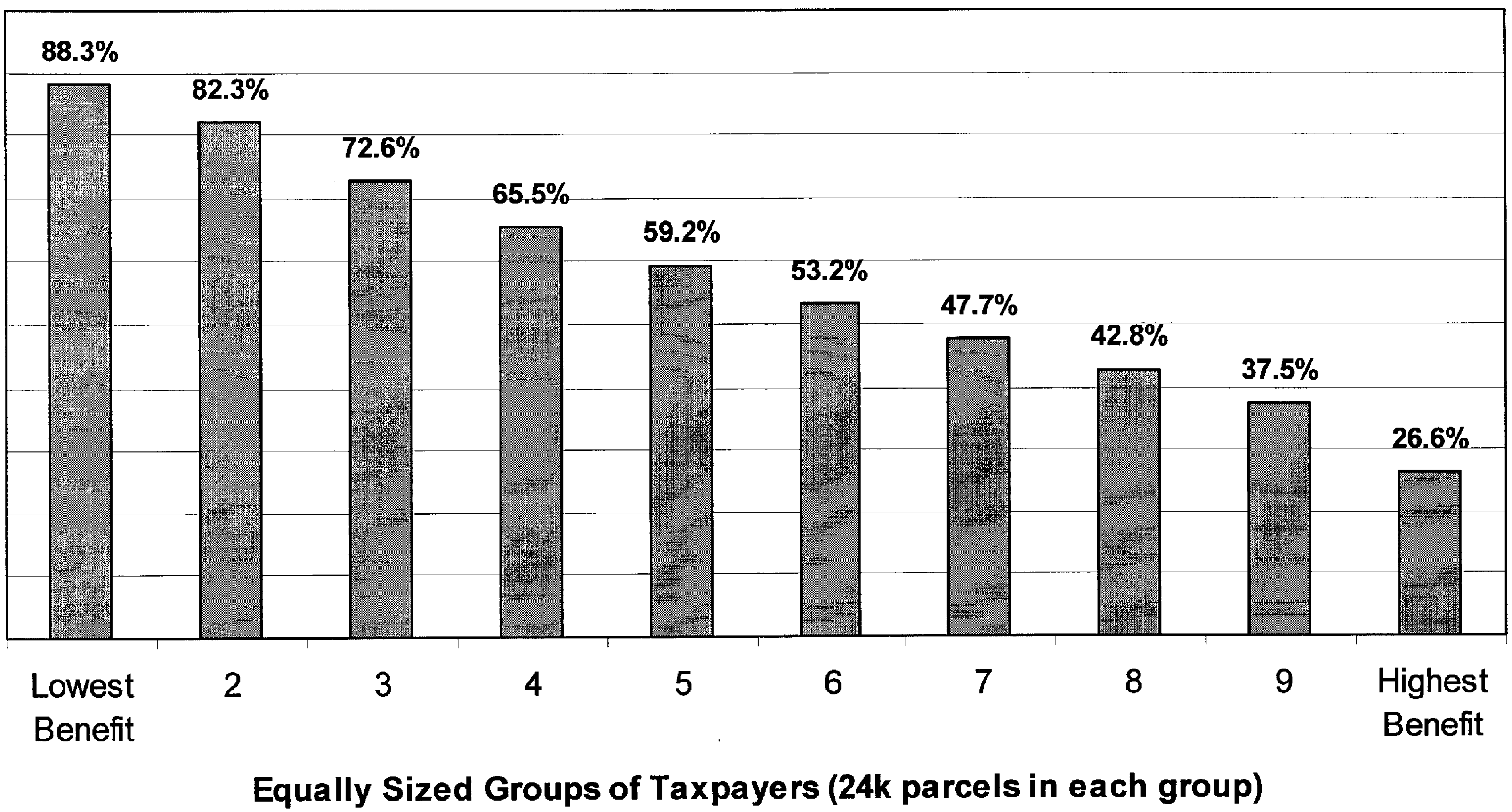
Options to Alleviate the Lock-In Effect:

- Portability—Allow homeowners to take their Save Our Homes benefits with them when they relocate within Florida.
- Eliminate Save Our Homes.
- Replace the property tax with an alternative revenue source.

Equity


Variations in Average Save Our Homes Differential
FY 2005-06
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Avg = $58,061
Median = $36,498
$0
$5,421
$14,419
$23,092
$31,864
$41,700
$53,508
$69,478
$97,999
$244,095
Lowest SOH
2
3
4
5
6
7
8
9
Highest SOH
Equally Sized Groups of Taxpayers
(429k parcels in each group, Except lowest w/ 505k and 2nd lowest w/ 352k)

Just Value= $200k - $225k
Taxable Value as percent of Just Value
FY 2005-06



Tax Shifting to Non-Homesteaded Properties

- Without Save Our Homes:
  - The portion of the tax base attributable to non-homestead property would be almost 20 percent lower,
  - Statewide homestead taxable value would be 74 percent higher,
  - Current revenues could be generated from tax rates that are approximately 20 percent lower,
  - But, taxes on homesteaded property would be about 40 percent higher.

Options to Improve Equity:

- Eliminate homestead-related tax preferences such as the homestead exemption and the Save Our Homes assessment limitation.
- Increase the Save Our Homes growth caps.
- Replace the property tax with an alternative revenue source.
- Allow partial year property assessments.

Other Issues Considered by the Committee

- Agricultural Use Classification
- Value Adjustment Boards
- Homestead Exemption Situations

Recommendations:

- Any recommendations to improve property taxation in Florida should be founded on a comprehensive approach, with an emphasis on simplifying the system for all taxpayers.

- The Property Tax Reform Committee should continue to meet and formulate recommendations as contemplated in Executive Order 06 – 141.

Recommendations:

- The committee concurs with the suggestions offered by the Auditor General in his performance audit of the Value Adjustment Board process, except for the possible creation of an appeals process at the regional or state level.

The Committee Will Further Study:

- Assessments based on current use
- Revenue caps for local governments
- Assessment caps for individual properties
- Full or partial replacement of the property tax with other forms of taxation
- Moving average assessments
- Simplification of the Truth in Millage notice
- Homestead Exemption increases
- Save Our Homes portability

The Committee Will Further Study:

- Phase-out of Save Our Homes
- Partial-year assessments
- Agricultural use classification improvements
- Protection of homestead-related tax benefits when:
  - Property is taken through the use of eminent domain
  - Frequent relocations are required by military service

Property Tax Reform Committee

Committee Members:

- Donna Arduin of Fort Lauderdale, Partner and President, Arduin, Laffer & Moore Econometrics, LLC.
- Stephen Auger of Tallahassee, Executive Director, Florida Housing Finance Corporation.
- Barney Barnett of Lakeland, Vice Chairman, Publix Super Markets, Inc.
- Don DeFosset of Tampa, retired, appointed as Chairman.
- Bill Donegan of Maitland, Orange County Property Appraiser.
- Representative Carlos Lopez-Cantera of Miami.
- Charles Milsted of Tallahassee, Associate State Director, AARP.

Property Tax Reform Committee

Committee Members (cont'd):

- Representative Dave Murzin of Pensacola.
- Dennis Nelson of Wellington, realtor, Keyes Company.
- Senator Burt Saunders of Naples.
- Cynthia Shelton of Lake Mary, Director of Investment Sales, Colliers Arnold.
- Robert Turner of Tampa, Hillsborough County Property Appraiser.
- Tony Villamil of Coral Gables, Chief Executive Officer, The Washington Economics Group.
- William Walker of Coral Gables, Partner, White & Case, LLP.
- Richard Spears of Orlando, retired.

State and Local Spending Comparisons

Comparison of Growth in State and Local Government Expenditures

Property Tax Reform Committee

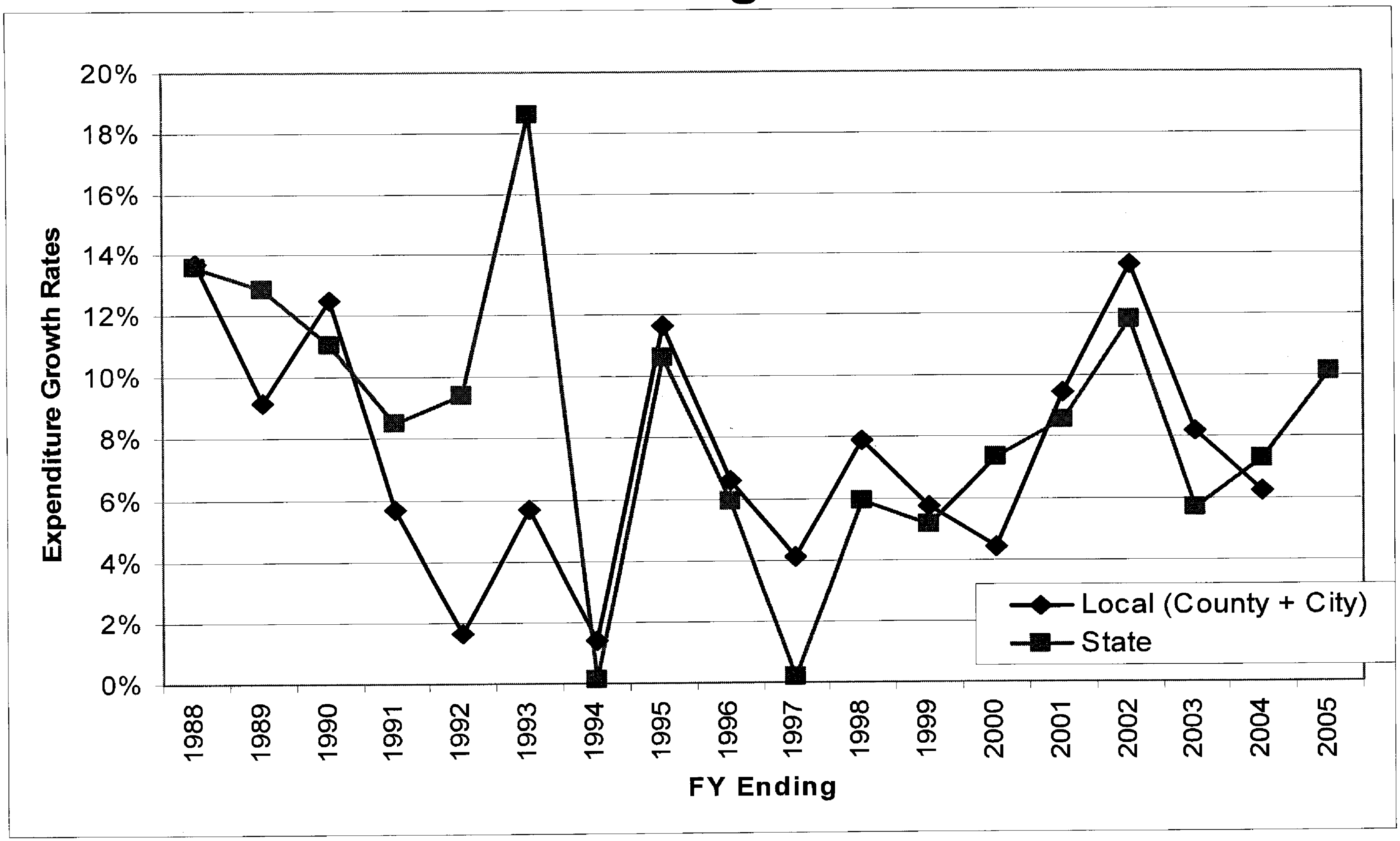
October 17, 2006

Local Government Spending Information Can Be Difficult to Work With

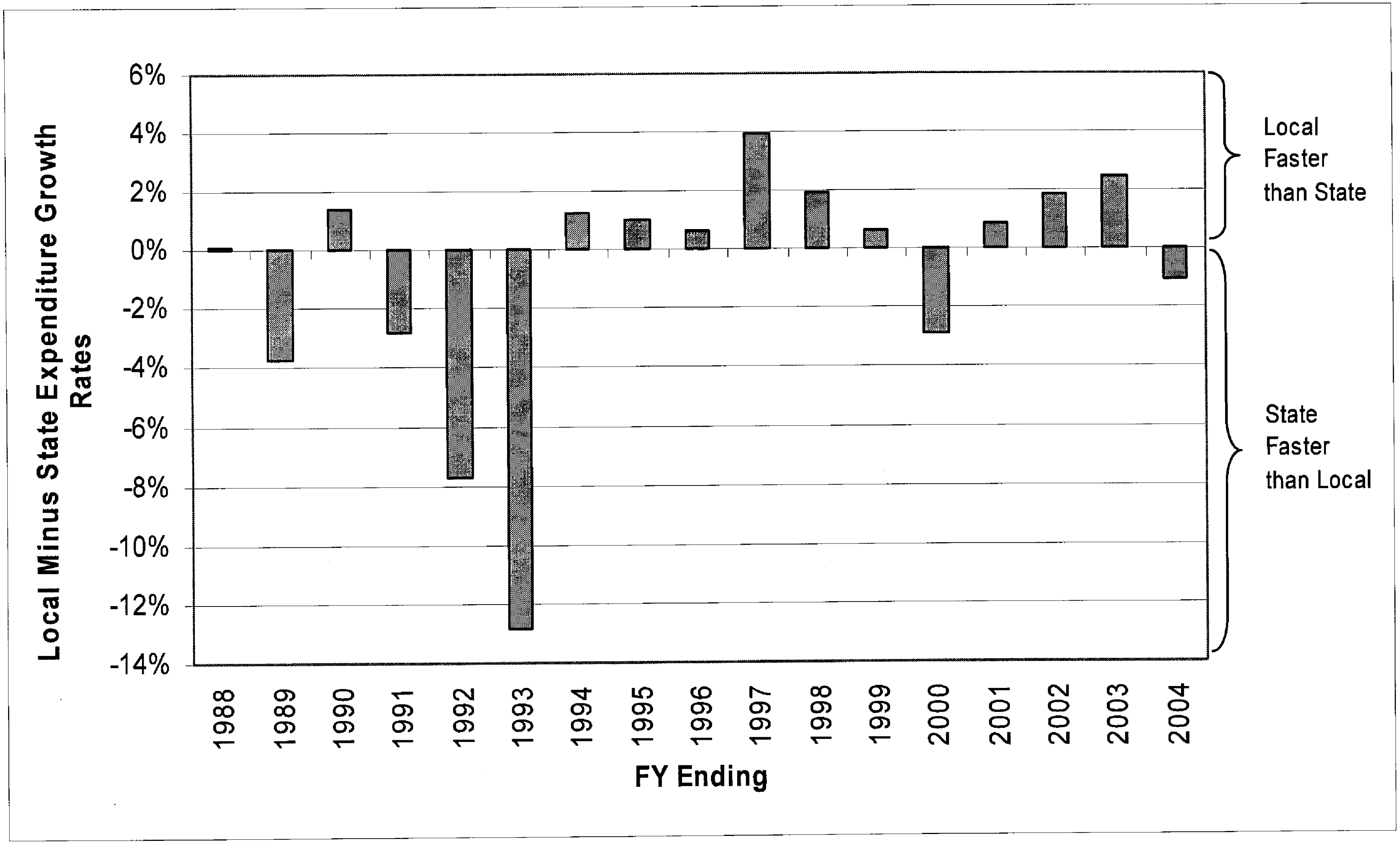
- Individual governments organize their spending/budgeting patterns in a variety of ways, within the confines of a system of accounts common to all Florida local governments.

- Comprehensive data are not available on a timely basis.

Local and State Government Spending Often Move Together



Local Government Spending Often Grows Faster than for the State



Recent Budget Evidence

- In an effort to fill the information gap over the past two years, a sample of county and city budgets was compiled.

- The objective was 5 years of *budget* growth ending with the recently adopted FY 2006-07 budgets.

- Not statistically representative, so generalizations *may* not be valid.

Local Government Budget Growth: Selected Governments

Sample Characteristics:

	2002-03	2003-04	2004-05	2005-06	2006-07
Number of Govts					
Counties	10	10	10	11	8
Cities	9	10	10	10	9
% of Pop Represented					
Counties	43.0%	43.0%	42.9%	43.7%	36.4%
Cities	8.3%	8.9%	8.8%	9.0%	8.0%

Total Budget Growth:

	2002-03	2003-04	2004-05	2005-06	2006-07
County Sample	7.6%	-0.9%	12.6%	13.2%	9.3%
City Sample	-0.6%	3.9%	11.7%	4.2%	15.6%
Full Sample	6.5%	-0.2%	12.5%	12.0%	10.0%
State	4.4%	7.1%	8.6%	12.2%	12.0%

General Fund Budget Growth:

	2002-03	2003-04	2004-05	2005-06	2006-07
County Sample	7.1%	6.1%	7.5%	12.5%	14.7%
City Sample	4.6%	5.9%	8.5%	8.3%	12.3%
Full Sample	6.7%	6.1%	7.7%	11.8%	14.3%
State	7.4%	6.0%	12.0%	9.0%	9.0%

Governments Sampled

Counties	**Cities**
Alachua	Daytona Beach
Bay	Defuniak Springs
Brevard	Ft. Lauderdale
Broward	Ft. Walton Beach
Duval	Lakeland
Escambia	Monticello
Gadsden	Orange Park
Glades	Orlando
Hillsborough	Pensacola
Lee	Sarasota
Miami-Dade	Vero Beach
Orange	W Palm Beach
Palm Beach	
Taylor	

Ad Valorem Tax Overview

Ad Valorem Tax[1]

Section 9, Article VII, Florida Constitution
Chapters 192-197 and 200, Florida Statutes

Brief Overview

The ability of local governments to raise revenue for governmental operations is narrowly constrained by the state constitution.

> Counties, school districts, and municipalities shall, and special districts may, be authorized by law to levy ad valorem taxes and may be authorized by general law to levy other taxes, for their respective purposes, except ad valorem taxes on intangible personal property and taxes prohibited by this constitution.[2]
>
> Ad valorem taxes, exclusive of taxes levied for the payment of bonds and taxes levied for periods not longer than two years when authorized by vote of the electors who are the owners of freeholds therein not wholly exempt from taxation, shall not be levied in excess of the following millages upon the assessed value of real estate and tangible personal property: for all county purposes, ten mills; for all municipal purposes, ten mills; for all school purposes, ten mills; for water management purposes for the northwest portion of the state lying west of the line between ranges two and three east, 0.05 mill; for water management purposes for the remaining portions of the state, 1.0 mill; and for all other special districts a millage authorized by law approved by vote of the electors who are owners of freeholds therein not wholly exempt from taxation. A county furnishing municipal services may, to the extent authorized by law, levy additional taxes within the limits fixed for municipal purposes.[3]

With the exception of the ad valorem tax and other constitutionally authorized and home-rule revenue sources, local governments are dependent on the Legislature for the authority to levy any other forms of taxation. Therefore, the relative importance of the ad valorem tax as a revenue source for local governments is increased.

To summarize, local governments may levy ad valorem taxes subject to the following limitations.

1. This discussion of ad valorem taxes has been adapted, in part, from the following informational materials: Nabors, Giblin, & Nickerson, P.A., *Primer on Home Rule & and Local Government Revenue Sources* (2005) and The Florida Legislature's Senate Committee on Government Efficiency Appropriations, House Committee on Finance and Tax, Office of Economic & Demographic Research, and the Florida Department of Revenue's Office of Tax Research, *2005 Florida Tax Handbook Including Fiscal Impact of Potential Changes* (2005).

2. Section 9(a), Art. VII, State Constitution.

3. Section 9(b), Art. VII, State Constitution.

1. Ten mills for county purposes.
2. Ten mills for municipal purposes.
3. Ten mills for school purposes.
4. A millage fixed by law for a county furnishing municipal services.
5. A millage authorized by law and approved by voters for special districts.

As mentioned, the state constitution provides two exceptions to the ten-mill cap. The exceptions include a voted debt service millage and a voted millage not to exceed a period of two years. Additionally, no property may be subject to more than twenty mills of ad valorem tax for municipal and county purposes without elector approval, regardless of the property's location, under the state constitution. Duval County-City of Jacksonville is a consolidated government; therefore, it has a twenty-mill cap since it operates as both a county and municipal government.

County Millages

County government millages are composed of four categories of millage rates.[4]

1. General millage is the nonvoted millage rate set by the county's governing body.
2. Debt service millage is the rate necessary to raise taxes for debt service as authorized by a vote of the electors pursuant to Section 12, Art. VII, State Constitution.
3. Voted millage is the rate set by the county's governing body as authorized by a vote of the electors pursuant to Section 9(b), Art. VII, State Constitution.
4. County dependent special district millage is added to the county's millage to which the district is dependent. A dependent special district is defined as a special district meeting at least one of four criteria specified in law.[5]

County Furnishing Municipal Services

General law implements the constitutional language authorizing a county furnishing municipal services to levy additional taxes within the limits fixed for municipal purposes via the establishment of municipal service taxing or benefit units.[6] The distinction between a municipal service taxing unit (MSTU) and a municipal service benefit unit (MSBU) is that a MSBU is the correct terminology when the mechanism used to fund the county services is derived through service charges or special assessments rather than taxes.

The creation of a MSTU allows the county's governing body to place the burden of ad valorem taxes upon property in a geographic area less than countywide to fund a particular municipal-type service or services. The MSTU is used in a county budget to separate those ad valorem taxes levied within

4. Section 200.001(1), F.S. (2005).

5. Section 189.403(2), F.S. (2005).

6. Section 125.01(1)(q), F.S. (2005).

the taxing unit itself to ensure that the funds derived from the tax levy are used within the boundaries of the taxing unit for the contemplated services. If ad valorem taxes are levied to provide these municipal services, counties are authorized to levy up to ten mills.[7]

The MSTU may encompass the entire unincorporated area, a portion of the unincorporated area, or all or part of the boundaries of a municipality. However, the inclusion of municipal boundaries within the MSTU is subject to the consent by ordinance of the governing body of the affected municipality given either annually or for a term of years.

Municipal Millages

Municipal government millages are composed of four categories of millage rates.[8]

1. General millage is the nonvoted millage rate set by the municipality's governing body.
2. Debt service millage is the rate necessary to raise taxes for debt service as authorized by a vote of the electors pursuant to Section 12, Art. VII, State Constitution.
3. Voted millage is the rate set by the municipality's governing body as authorized by a vote of the electors pursuant to Section 9(b), Art. VII, State Constitution.
4. Municipal dependent special district millage is added to the municipality's millage to which the district is dependent and included as municipal millage for the purpose of the ten-mill cap.

School District Millages

As previously stated, the state constitution restricts the levy of nonvoted ad valorem tax levies for school purposes to ten mills. The voted levies, which are constitutionally available to counties and municipalities as well as school districts, do not count toward the ten-mill cap. School district millage rates are composed of five categories.[9]

1. Nonvoted required operating millage (otherwise known as *required local effort*) is the rate specified in the current year's General Appropriations Act and imposed by the school board for current operating purposes pursuant to s. 1011.60(6), F.S.
2. Nonvoted discretionary operating millage is the rate set by the school board for those operating purposes other than the required local effort millage rate authorized in s. 1011.60(6), F.S., and the nonvoted capital improvement millage rate authorized in s. 1011.71(2), F.S. The maximum amount of millage a district may levy shall be prescribed

7. Section 200.071(3), F.S. (2005).

8. Section 200.001(2), F.S. (2005).

9. Section 200.001(3), F.S. (2005).

annually in the appropriations act; however, the rate shall not exceed the lesser of 1.6 mills or 25 percent of the required local effort millage.[10]

3. Nonvoted capital improvement millage is the rate set by the school board for capital improvements as authorized in s. 1011.71(2), F.S. General law caps the maximum rate at 2 mills.
4. Voted operating millage is the rate set by the school board for current operating purposes as authorized by a vote of the electors pursuant to Section 9(b), Art. VII, State Constitution.
5. Voted debt service millage is the rate set by the school board as authorized by a vote of the electors pursuant to Section 12, Art. VII, State Constitution.

As previously mentioned, the Legislature requires all school districts to levy a required local effort millage rate in order to participate in state funding of kindergarten through grade 12 public school programs, via the Florida Education Finance Program.[11] The Legislature prescribes the aggregate required local effort for all school districts collectively as an item in the General Appropriations Act for each fiscal year. The millage rate required of each school district to provide its respective share of the costs is calculated annually by formula. This rate is adjusted by an equalization factor designed to account for differing levels of assessment in each district.

Independent Special District Millages

Independent special district millages are the rates set by the district's governing body, and the following issues must be addressed.[12]

1. Whether the millage authorized by a special act is approved by the electors pursuant to Section 9(b), Art. VII, State Constitution; authorized pursuant to Section 15, Art. XII, State Constitution; or otherwise authorized.
2. Whether the tax is to be levied countywide, less than countywide, or on a multicounty basis.

Adjustments to the Tax Base

The ad valorem taxable base is the fair market value of locally assessed real estate, tangible personal property, and state assessed railroad property, less certain exclusions, differentials, exemptions, and credits. Intangible personal property is excluded because it is separately assessed and taxed by the state. A brief explanation of the adjustments to the taxable base follows.

Exclusions are specific types of property constitutionally or statutorily removed from ad valorem taxation. The following list reflects the major categories of exclusions.

10. Section 1011.71(1), F.S. (2005).

11. Section 1011.62, F.S. (2005).

12. Section 200.001(4), F.S. (2005).

1. Transportation vehicles such as automobiles, boats, airplanes, and trailer coaches that are constitutionally excluded from ad valorem taxation but subject to a license tax.
2. Personal property brought into the state for transshipment that statutorily is not considered to have acquired taxable situs and therefore is not part of the tax base.

Differentials are reductions in assessments that result from a valuation standard other than fair market value. The following list reflects the valuation standards.

1. Value in current use only (e.g., agricultural value).
2. Value at a specified percentage of fair market value (e.g., the state constitution allows inventory and livestock to be assessed on a percentage basis, although the Legislature has exercised its option to totally exempt such property).
3. Value that results from a limitation on annual increases (e.g., increases in assessments of homestead property are limited to the lesser of 3 percent or the Consumer Price Index up to the fair market value).

Exemptions are deductions from the assessed value that are typically specified as a dollar amount (e.g., homestead exemption of $25,000). However, certain exemptions are equal to the total assessed value of the property (e.g., property used exclusively for charitable purposes), or are equal to a portion of the total assessment, based on a ratio of exempt use to total use, provided that said percentage must exceed 50 percent (e.g., property used predominantly for charitable purposes).

Credits are deductions from the tax liability of a particular taxpayer and may take the form of allowances, discounts, and rebates. Currently, the only credits allowed in Florida are early payment and installment discounts of not more than 4 percent.

Deferrals do not reduce the taxpayer's overall tax liability but allow for changes in the timing of payments. Under certain circumstances, a taxpayer may defer a portion of the taxes due on homestead property for the remaining lifetime of the property owner and spouse or until the sale of the property.

General Law Amendments

The following highlights the legislation passed during the 2005 legislative sessions that amended provisions related to property tax administration.

Chapter Law #	Section #	Subject
2005-42	1-2	Exemptions – Disabled Ex-Service Member
2005-96	1	Refunds – Tax Notice Error
2005-111	21	Property Appraiser Record Keeping
2005-157	14	Waterfront Property – Deferral of Taxes
2005-185	1-2	Review of Assessment Rolls – Post Audit Notification

2005-210	1	Agriculture
2005-220	1	Delinquent Property Tax
2005-268	1	Assessments – Homestead Property
2005-278	49	Voter Registration – Homestead Exemption
2005-280	32-33	Space Laboratories and Carriers Exemption
2005-287	1	Enterprise Zone

A brief description of these law changes is available in the Department of Revenue's (DOR) *2005 Post Legislative Review*.[13] The 2005 chapter laws are available via the Department of State's Division of Elections website.[14]

Eligibility Requirements

As previously mentioned, the state constitution authorizes counties, municipalities, and school districts to levy ad valorem taxes. In addition, the Legislature may, at its discretion, authorize special districts to levy ad valorem taxes.

Millage rates are fixed only by ordinance or resolution of the governing body of the taxing authority in the manner specifically provided by general law or special law.[15] Millage rates vary among local governments subject to constitutional, statutory, and political limitations.

Administrative Procedures

The DOR and units of local government administer the ad valorem tax. Two county constitutional officers, the property appraiser and tax collector, have primary responsibility for the collection and administration of ad valorem taxes at the local level. The property appraiser is charged with determining the value of all property within the county, maintaining appropriate records related to the valuation of such property, and determining the ad valorem tax on taxable property. The tax collector is charged with the collection of ad valorem taxes levied by the county, school district, all municipalities within the county, and any special taxing districts within the county.

The DOR has general supervision of the assessment and valuation of property so that all property is placed on the tax rolls and valued according to its just valuation. Additionally, the DOR prescribes and furnishes all forms as well as prescribes rules and regulations to be used by property appraisers, tax collectors, clerks of circuit court, and value adjustment boards in administering and collecting ad valorem taxes.

13. http://taxlaw.state.fl.us/pdf/PLR2005.pdf

14. http://election.dos.state.fl.us/laws/laws_proced.shtml

15. Section 200.001(7), F.S. (2005).

Chapter 195, F.S., addresses the administration of property assessments. Additional chapters of the Florida Statutes deal with other relevant issues: Chapter 192, general provisions of taxation; Chapter 193, assessments; Chapter 194, administrative and judicial review of property taxes; Chapter 196, exemptions; Chapter 197, tax collections, sales, and liens; and Chapter 200, determination of millage.

Distribution of Proceeds

The tax collector distributes taxes to each taxing authority.[16]

Authorized Uses

Ad valorem taxes are considered general revenue for general-purpose local governments (i.e., county, municipality, or consolidated city-county government) as well as for school districts. A independent special district may be restricted in the expenditure of the revenue for the purpose associated with the creation of the district itself. If ad valorem taxes are levied within a municipal service taxing unit (MSTU), the expenditure of those funds may be restricted to those services specified in s. 125.01(1)(q), F.S.

Relevant Attorney General Opinions

Florida's Attorney General has issued hundreds of legal opinions relevant to this revenue source. The full texts of those opinions are available via the searchable on-line database of legal opinions.[17] Interested persons may view the opinions by accessing the website and performing a search using the keyword phrase *ad valorem tax*.

Local government officials seeking more clarification should review the opinions in their entirety. The reader should keep the date of the opinion in mind when reviewing its relevance to current law or any interpretations that have been articulated in Florida case law.

Current and Prior Years' Revenues

No revenue estimates for individual local governments in the current fiscal year are available. The DOR annually publishes its *Florida Property Valuations & Tax Data* report that details property valuations and tax data by local jurisdiction. The most recent edition contains values for 2004 as well as several prior years for purposes of comparison and is available via the DOR's website.[18]

16. Section 197.383, F.S. (2005).

17. http://myfloridalegal.com/opinions

18. http://myflorida.com/dor/property/databk.html

Using data obtained from these annual reports, the LCIR staff has compiled several additional tables profiling millage rates and ad valorem taxes levied by counties, municipalities, and school districts for the period of 1996 through 2004. These tables are available via the LCIR's website.[19]

19. http://fcn.state.fl.us/lcir/dataAtoZ.html

Research Report
December 2006

Center for Local Government Studies
106 N. Bronough St. ♦ P.O. Box 10209 ♦ Tallahassee, FL 32302 ♦ (850) 222-5052 ♦ FAX (850) 222-7476
This report was initially released electronically before being printed in hardcopy format

Controlling Escalating Property Taxation and Local Government Spending and Revenue

Florida's property tax system is in crisis. Property tax levies are skyrocketing and the system places most of the burden for these increased taxes on only a portion of the taxpayers. The state's Save Our Homes constitutional amendment, while holding down taxes for many homeowners, has brought on a myriad of problems, shifting billions of dollars in taxes from some taxpayers to others each year, creating inequities in tax treatment, increasing housing costs for renters and new home buyers, and restricting the financial ability of some people to move to a different home.

Many local officials are ignoring a provision of the state's Truth in Millage law by enacting large tax increases and passing them off as "holding the line" or even, inappropriately, stating that they are cutting taxes.

Total property tax levies in Florida have more than doubled in the last nine years (FY 1997 – FY 2006), including growth of 42% in just three years. This is almost three times as fast as the combined growth in population and inflation, and doesn't even include the recently commenced local fiscal year, which is likely to have the largest increase in recent history. Florida's total property tax burden now stands at over $25.7 billion (FY 2006).

Spending by local governments is also increasing rapidly, outpacing population and inflation growth, as well as Floridians' ability to pay. Hefty revenue hikes are not just limited to property taxes; other revenue sources, such as special assessments, impact fees, and charges for services (previously supported by taxes) are increasing in number and growing even faster.

Every year around the time taxpayers get their property tax notices and local governments hold budget hearings, Florida TaxWatch hears from taxpayers that are upset about some aspect of the property tax system. This year, the volume of calls and magnitude of taxpayers' anger reached a fever pitch. Taxpayers perceive a property tax system that is unfair, unaffordable, out of control, and getting worse.

Governor Jeb Bush established a Property Tax Reform Committee that has been holding meetings across the state. Florida TaxWatch had encouraged such a group. The Committee has also heard from many disgruntled taxpayers. It is planning to continue its work through 2007. Florida TaxWatch will work with the Committee, as well as the upcoming Florida Taxation and Budget Reform Commission, to try to bring some reasonableness back to property taxes and local government revenue and spending practices as a whole.

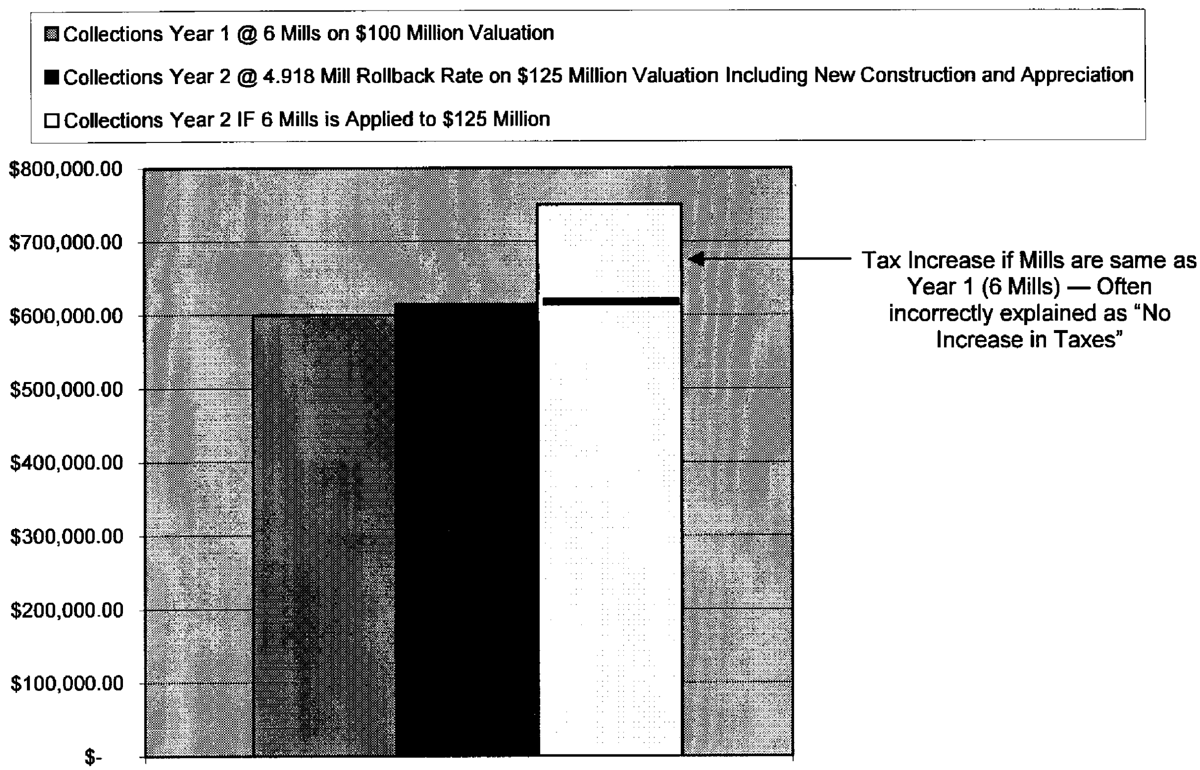
It's All About the Millage Rates

In recent years, Florida's rapidly escalating property values have made it possible for cities, counties, and school districts to raise significant new revenues without increasing, and even slightly reducing, millage rates. Moreover, even small increases in tax rates can result in huge revenue boosts.

Many local governments have treated this as a windfall, when it is actually a significant tax increase.

Florida's Truth in Millage (TRIM) law recognizes that property values are a powerful revenue-producing tool and that skyrocketing values result in skyrocketing tax burdens if locally elected officials do not commensurably reduce the property tax rates. TRIM requires that taxing authorities calculate a "rolled-back millage rate". This is the millage rate that, when applied to the current year's assessed value, would raise the same amount of revenue as last year.

How Keeping the Same Millage Level as the Previous Year Constitutes a Tax Increase as Defined by State TRIM Law



According to TRIM, any millage rate in excess of the rolled-back rate is considered *by law* to be a tax increase and is to be advertised as such. New construction, additions to existing structures, major rehabilitations, and annexations are excluded from the rolled-back rate calculation to allow for some growth revenue. Even if a taxing authority keeps the same millage rate, if the total assessed value of the property on last year's tax roll is up, then it is considered, and should be presented as, a tax increase. [*For more information on Truth in Millage, read "TRIM" and Property Taxes: A Primer, December 2006, accessible on the Florida TaxWatch website at www.FloridaTaxWatch.com.*]

Even with Save Our Homes artificially holding down the taxable value of homestead property, the total taxable value of property in Florida has more than doubled since 2000, reaching more than $1.6 trillion. These values increased by an extraordinary 25% in 2006 alone.

This remarkable growth has allowed local governments to often lower millage rates. In fact, the estimated average statewide millage rate of 19.54 mills for 2006 is the lowest since 1989.

This does not mean that local governments have been cutting property taxes. Florida property owners are experiencing the curious dichotomy of falling tax rates and rising taxes (again, because of ever-growing property values). However, many local governments have been deceptively portraying these millage reductions as tax cuts.

Florida should look closely at the state's valuable TRIM law to ensure that it serves its intended purpose of making local governments truly accountable for increasing property taxes over the rolled-back rate. It should be required that the rolled-back rate be the starting point in local budget processes.

Other Local Revenues Also Growing Rapidly

Another remarkable aspect of local revenue has been that the growth in other revenue sources has been keeping pace with that of higher property value-fueled property taxes. It must be remembered that property taxes, while by far the largest local tax source, only provide 37.1% of city, county, and special district revenue (24.7%, when including enterprise funds). Property taxes, which are high profile, have received the attention, but virtually all local revenues have also been increasing far faster than population and inflation, as well as taxpayers' ability to pay.

Local data for these sources is only available through 2004. Florida TaxWatch examined the growth in revenues for cities, counties, and special districts for the ten-year period of 1994-2004. While total property tax revenue for these jurisdictions grew 94% over this period, total governmental revenue increased 108%. Cities led the way with 135% growth, but this is at least partially attributable to increased annexations.

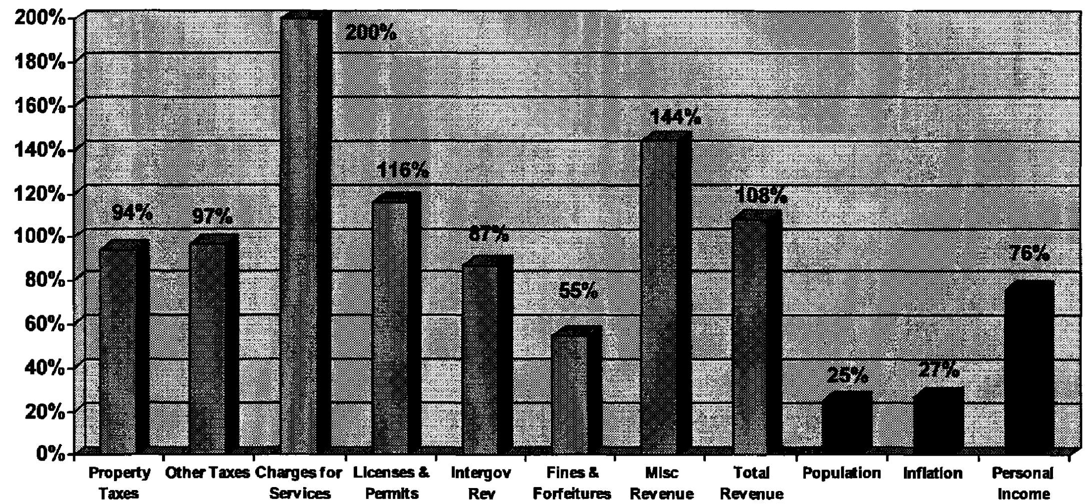
Growth in Total Revenues and Expenditures
1994-2004

	Revenue	Expenditures
Counties	101%	103%
Cities	135%	124%
Special Districts*	118%	128%
Total	108%	109%

* includes enterprise revenues

The 94% growth of property taxes over this period pales in comparison to the increase in charges for services (200%) and miscellaneous revenue (144%, which includes impact fees and special assessments). Interestingly, non-property taxes (sales, franchise, utility, and communications) grew slightly faster than property taxes (see chart below).

Rapidly Rising Growth in Local Government Revenues
FY 1994 - FY 2004
Cities, Counties, and Special Districts



Source: Florida TaxWatch, using data from the Florida Legislative Committee on Intergovernmental Relations, December 2006

Special Assessments and Impact Fees

Two other local levies that affect property owners, impact fees and special assessments, are skyrocketing. These are included in the "Miscellaneous Revenue" category in the above chart.

Special assessments, also known as non-ad valorem assessments, are a home rule revenue source that may be used by a local government to fund certain services, and construct and maintain capital facilities. To impose a special assessment, the property assessed must derive a special benefit from the improvement or service provided, and the assessment must be fairly and reasonably apportioned among the properties that receive the special benefit.

If a local government's special assessment ordinance withstands these two legal requirements, the assessment is not considered a tax, which is levied for the general benefit of residents and property rather than for a specific benefit to persons and property. That distinction is becoming increasingly lost on many taxpayers, as more and more of these assessments are included with their tax bills.

While still a fairly small component of local governments' total revenues, special assessments are growing rapidly. From 1994-2004, special assessments levied by all Florida counties, cities, and special districts have almost tripled, increasing 171%. This is faster than population growth (25%), inflation (27%), and even growth in Florida's total personal income (76%). These assessments totaled $848 million in 2004. While having the lowest dollar amount, cities have had the fastest increase, with non-ad valorem assessments growing eight-fold in ten years.

Impact fees are charges levied against new development to pay for needed infrastructure, such as roads and sewers. These fees (including cities, counties, special districts, and school districts) have grown almost five-fold in ten years (389%), increasing from $219 million in 1994 to $1.07 billion in 2004.

More and more jurisdictions are using impact fees. In 1994, 167 government entities reported impact fee revenues. This number grew to 258 in 2004. Those governments levied 283 different impact fees in 1994; there were 492 different ones in 2004.

Another revenue source increasingly relied on by local governments is charges for services, which increased 200% in ten years. In many instances, the charges are added costs for services, which were previously supported with taxes.

Profligate Revenue/Spending Practices are Commonplace: Spending is Growing Because Local Officials Cannot Resist Spending from Swollen Revenue Bases

Not surprisingly, growth in local government expenditures over the same period is comparable to revenue growth. Total city, county, and special district governmental expenditures were up 109% from 1994 to 2004. Comprehensive local revenue and expenditure data is not available past 2004, but the growth in the three years since is likely even higher, since property taxes have had such huge growth.

A limited survey of some cities and counties by the Property Tax Reform Committee showed average budget growth of 38% from FY 2005 to FY 2007 (average annual growth of 11.3%). The survey was not statistically representative, but included approximately 20 cities and counties in each year. Florida TaxWatch has examined several local government budgets for FY 2007 and found even higher growth.

The lack of revenue/spending discipline is a local government-wide problem, and not just a property tax issue. Over the ten-year period studied, the growth in local government revenue of 108% far outstrips other measures of the economy, including population growth (25%), inflation (27%), and even growth in Florida's total personal income (76%). The growth in local government revenue is not sustainable and is exceeding the taxpayers' ability to pay.

At some point, if it has not already, this will have negative impacts on competitiveness, capital formation, healthy job growth, and tourism.

The latest data available from the U.S. Census Bureau (FY 2004) shows that Floridians' per capita local tax burden is the 16th highest in the nation. This is up from 21st in 2002. The double-digit growth in property taxes in recent years will likely push Florida's ranking even higher.

Responsible Controls on Local Government Spending Are Critical

Of course, the driving force behind escalating property taxes and other revenues are the spending decisions made by local government officials. Governments have sizable spending pressures on them and citizens often demand increased governmental services. But government spending must consider economic growth and the capacity of the taxpayers' ability to pay.

Local government revenues and expenditures are outpacing these factors and the cost of government in taking a larger piece of Floridians' income. The extraordinary growth in recent years may be resulting in governments adding or enhancing programs and services, "spending now while we've got the money," and creating budgets that may not be sustainable.

Many taxpayers are upset and some are predicting a "tax revolt". If taxing and spending continues unabated, this is a real possibility. If this should happen, limits on local governments may be imposed by the citizens through the constitutional initiative process. Such a limit could take an extreme and draconian form, making it very difficult for local governments to continue to provide even basic services.

Before this happens, **Florida needs to implement a reasonable, but meaningful, limit on local governments' revenues or expenditures.**

There are many ways to go about doing this. Decisions must be made on whether revenues or spending should be capped and how it will be limited. Should school districts be included?

Capping revenues would probably make more sense than limiting expenditures. Because of Florida constitutional prohibition against deficit spending, a revenue limit has the effect of capping spending. Also, expenditures can be harder to define and can have greater fluctuations.

A limit should probably only include governmental functions, and exclude enterprise funds. Special consideration should be given to the treatment of infrastructure funding. It would be unwise to unduly restrict the ability to provide needed schools, roads, and water projects. One approach is to only cap operating funds.

Since property taxes are the big issue now, one option would be to limit property tax levies. This could be done by mandating that local governments cannot adopt a millage rate in excess of the rolled-back rate. By capping tax rates instead of revenue actually collected, there is no need for provisions to handle revenue that may be collected over the cap. This would be a straightforward approach, but the rolled-back rate should be reconsidered. While the rolled-back rate does make some allowance for growth by excluding new construction, there is no allowance for inflation. Over the last ten years, the largest average growth allowed under the rolled-back rate was 3.5%. The definition of the rolled-back rate should be changed to allow for an inflation factor, or to use another measure, such as income growth.

Capping only one revenue source is not a complete solution, because it may result in governments compensating by increasing other taxes, special assessments, or fees. A more comprehensive revenue limit may be in order, or a separate limit on non-property tax revenues, in concert with a millage cap.

While a limit must have teeth, it also needs some flexibility to handle unforeseen circumstance and emergencies. A supermajority vote of the governing board to override is one approach. New voter-approved taxes could be exempt.

Florida TaxWatch will continue to examine the issues involved in limiting local government revenues or expenditures, and will work to develop a proposal that works for taxpayers and local governments.

The Big Property Tax Issue: Save Our Homes

The biggest property tax issue, in addition to unsustainable growth, is the Save Our Homes amendment in the state constitution. The 1992 amendment (which took effect in 1995) limits the annual increase in the assessments of homestead property to 3%, or the increase in inflation, whichever is less. In recent years, it has been below 3%, often less than 2%. When a house is sold, it is reassessed at full, or just, value. This has resulted in shifting billions of dollars in taxes, creating numerous inequities, and leading to the "locked-in effect", where people feel they cannot afford to move due to the significant tax increase they face.

Save Our Homes Annual Increase

Year	CPI Change	Cap
2006	3.40%	3.00%
2005	3.30%	3.00%
2004	1.90%	1.90%
2003	2.40%	2.40%
2002	1.60%	1.60%
2001	3.40%	3.00%
2000	2.70%	2.70%
1999	1.60%	1.60%
1998	1.70%	1.70%
1997	3.30%	3.00%
1996	2.50%	2.50%
1995	2.70%	2.70%

Despite best intentions, Save Our Homes (SOH) is flawed and is not a tax limit, but a tax shift, as Florida TaxWatch has pointed out since 1992. Since it does not control millage rates, the effect has been a shifting of the tax burden to non-homestead property, affecting businesses, renters, and second homeowners, or anyone who owns property that is not homesteaded. Even though average millage rates have been falling, they are certainly much higher than they would be without the amendment. Property not subject to the limit bears the brunt.

Save Our Homes has removed $404.4 billion in taxable value from the rolls in Florida in 2006. This is worth approximately $7.7 billion in taxes, based on an estimated 2006 average statewide millage rate of 19.0. (The 2005 statewide millage rate was 19.54 and the 2006 rate will likely be slightly lower.)

The Save Our Homes differential is growing by leaps and bounds (see table below). It increased by 64.2% from 2005 to 2006, and has not had an annual increase of less than 34% since it took effect. Since 2000, SOH has removed over $1 trillion in value from the tax rolls. This is worth approximately $21 billion in property taxes.

Growth in the Save Our Homes Differential
($ in millions)

Year	2000	2001	2002	2003	2004	2005	2006	Total
Taxable Value	$27,815	$47,679	$80,364	$117,891	$165,144	$246,221	$404,380	$1,089,494
Ave. Millage Rate	20.92	20.75	20.46	20.24	20.09	19.54	19.0*	
Tax Dollars	$582	$989	$1,644	$2,386	$3,318	$4,811	$7,683	$21,413
Annual Increase		71.41%	68.55%	46.70%	40.08%	49.09%	64.23%	
Cum. Increase		71.41%	188.92%	323.84%	493.72%	785.21%	1353.82%	

*estimated

Source: Florida TaxWatch, using data from the Office of Economic and Demographic Research, December 2006

Make No Mistake: Save Our Homes Has Been a Tax Shift

Claims have been made that SOH has not shifted taxes; that is, no one's taxes are higher than they would have been without SOH. The only way this could be true is if SOH has resulted in local governments having $21 billion less to spend since 2000. The growth in property tax levies and local government spending since SOH suggests that this is certainly not the case.

It is more likely that SOH has done little to hold down property taxes in total. Many homeowners have undoubtedly saved money from Save Our Homes. However, the amount of property tax revenue that governments bring in is probably not much lower than it would have been without SOH. Local governments have simply compensated for SOH by keeping millage rates higher than they would have been otherwise.

Millage rates are surely much higher than they would have been without Save Our Homes. This means that those properties being assessed at full value are paying higher taxes than they would have, and those with reduced assessments are paying less.

If one assumes the same level of revenue, not all of the SOH differential has been shifted from homestead to non-homestead properties. Since millages rates are higher, some of that differential (in terms of tax dollars) is being paid by those with SOH protection, so tax savings may not be as high as some think.

For example, the Required Local Effort (RLE) millage rate levied by school districts is much higher than it would be without Save Our Homes. RLE is the millage school districts are required to levy to participate in the state's education funding program. With the reduction in taxable value from SOH, it takes a higher millage rate to raise the dollars the Legislature determines districts need to contribute.

To raise the same amount of money, the current RLE of 5.010 mills would be reduced to 3.997 mills (20.2%) without Save Our Homes.

Save Our Homes Removes Many Voices from Local Tax and Spend Decisions

One aspect of Save Our Homes may have resulted in local governments actually taxing and spending more than they would have without it.

There is little doubt that SOH has limited one of the most effective methods of controlling local taxing and spending — disgruntled homeowners. Since rapidly growing property values have kept most millage rates from increasing, those under SOH protection have mostly seen property tax increases of less than 3%. These people are less likely to attend local budget hearings. Florida TaxWatch has heard from taxpayers all over the state that budget hearings have had very low public attendance in the years of SOH. This began to change last year, and especially this year, but the people attending the hearings tended to be business owners and non-residents, who likely do not carry the same political weight as resident homeowners/voters.

This year, the average increase in state **taxable** value was 25.1%. At this growth, if a local government voted to keep the same millage rate, that would be a 25.1% increase in taxes. If all taxpayers shared equally in that tax increase, it is likely more taxpayers would have demanded that their local officials roll back rates.

Taxes Shifted Among Homesteaders As Well

Along with the shifting of billions of dollars in taxes from homestead property to non-homestead property, because some homeowners benefit more than others, it has also shifted taxes among homesteaders.

There is no real natural market to control property taxes, such as there are for other homeowner costs like principal, interest, and insurance. Because there is little control over millage rates or local revenue/spending, anything that reduces one group of taxpayers' taxable value will result in taxes being shifted to the taxpayers not enjoying the benefit. This includes Save Our Homes, the homestead exemption, classified use differentials, or any of a number of property tax exemptions.

Because newly purchased homes are reassessed at full market value, SOH also shifts taxes to first-time homebuyers and people that move within Florida. The faster a home's fair market value increases, the larger the savings will be. So, homes with rapidly increasing values shift taxes to those that rise slower.

Multi-county tax levies can also shift taxes. For example, a water management district's millage rate covers multiple counties. Homes in counties with higher SOH differentials shift taxes to those in counties with lower differentials.

Inequities Created by SOH Place Constitutionality in Question

The amendment has also created inequities, such as two similar houses in the same area having vastly different tax bills. "Similarly situated" taxpayers should have similar tax liabilities, but this is not the case under SOH. The SOH savings on the same valued house can vary greatly. The longer a person has owned their homesteaded home, the greater the SOH savings. An analysis by the Florida Department of Revenue put all houses in Florida valued between $200,000 and $225,000 into deciles (ten equal sized groups) based on the size of their SOH differential. The 10% with the largest savings, on average, had 73.4% of their homes' value exempted, while the lowest ten percent had only 11.7% exempted.

The unequal taxation of similarly situated taxpayers opens the door for a legal challenge for violation of the state's equal protection clause. In Justice Ben Overton's dissenting opinion, during the Florida Supreme Court's pre-ballot review of SOH (Amendment 10), he states that although the question had not been raised, "I find that the application of amendment 10 may result in a serious equal protection violation. For example, two identical condominium units in the same building could be taxed at different amounts for identical public services because the amount of the tax would be calculated on the length of time the owners owned their respective units rather than on the true present value of their units." He raises the question of whether

Amendment 10, by implication, also amends Florida's equal protection clause without adequately notifying the voters. Two other Justices concurred.

Lack of Portability a Problem

SOH has also resulted in people feeling "trapped in their homes". Many homeowners who want to move to another house feel they cannot due to the huge tax increases they would face when the new home is initially assessed at full value.

Earlier this year, the Legislature considered several bills to allow homeowners to make portable their tax savings and apply it to any newly purchased house, and wisely decided to hold off on attempting a fix. There is much sentiment to address this issue in the upcoming session. This "portability" issue is a real problem, but it must be remembered that any change to ameliorate the situation will likely exacerbate its main problem of shifting taxes. The Legislature should not act in haste. The Florida Property Tax Reform Committee is currently studying portability and the upcoming Taxation and Budget Reform Commission is sure to consider it as well.

A portability provision should be part of a comprehensive change to the state's property tax system.

SOH Impacts Affordable Housing

Save Our Homes also has negative effects on affordable housing in Florida. Since SOH shifts taxes to non-homestead property, it is likely that landlords pass the increasing taxes on rental property to renters.

In addition, since the taxes on a newly purchased home are higher than they would be without SOH, the cost of home ownership is increased for first time homebuyers. According to a study by the Florida Office of Economic and Demographic Research, a $150,000 home purchased in 2005 would pay $204 per month in property taxes, compared to $84 per month for one bought in 1999. That $120 per month difference equates to the ability to purchase $20,000 (13%) more home.

Change is Needed: Distortions and Inequities Will Continue to Increase

SOH still enjoys significant (while possibly eroding) popularity, and due to its constitutional standing, any change to it will be difficult. However, the best approach would be replacing SOH with a system that protects and is fair to all taxpayers, and one that also has the effect of controlling local government spending.

Skyrocketing Property Taxes Renew Interest in Homestead Exemption

In Florida's property tax debate, another issue is Florida's $25,000 homestead exemption, which is being debated by the Florida Legislature, the Property Tax Reform Committee, and even gubernatorial candidates in the last election.

Some are calling for an increase to the basic homestead exemption, noting that it has not been increased since 1982. Below we examine the homestead exemption and its relative value today, while considering the effect the Save Our Homes amendment has had on homeowners' taxes.

History of the Homestead Exemption: Are Benefits Withering Away?

Florida's homestead exemption was created in 1934 by a constitutional amendment, providing for a $5,000 exemption designed to help homeowners keep their homes during the Great Depression. During the Depression, a $5,000 exemption represented a huge benefit for most homeowners, and all but eliminated property taxes for many. The $5,000 was deducted from a home's assessed value, before the tax (millage) rate was applied.

In 1980, the Florida Constitution was amended twice in reference to the homestead exemption. In March, the exemption for school taxes was increased to $25,000, and then in October, the exemption for county, city, and special district levies was also raised to $25,000, to be phased in over a three year period — $15,000 in 1980, $20,000 in 1981, and $25,000 in 1982. The amendment also authorized the Legislature to provide ad valorem tax relief to renters. The constitution still allows for this, but the Legislature has only provided such relief in a very limited form (e.g., homes for the aged).

In 1986, the Legislature brought a proposed amendment to voters to substantially change the homestead exemption from $25,000 to $5,000, plus one-half of the assessed value over $5,000, the total exemption not to exceed $25,000. At the time, many counties had a significant number of homesteads that were valued at less than $25,000, and were therefore totally exempted from taxation. The idea was that "everyone should pay something". The amendment was soundly defeated.

In 1998, an amendment was passed authorizing an additional local option homestead exemption of up to $25,000 for low-income homeowners over 65 years of age. The exemption may be adopted by ordinance by cities and counties, and only applies to the levy of the jurisdiction passing the ordinance. The 1999 Legislature passed a law to allow this local option. The latest information from the Florida Department of Revenue shows that 158 cities and 53 counties offer the exemption, ranging from $5,000 to $25,000.

The homestead exemption received a lot of consideration during the 2006 Legislative Session. One bill—HJR 353—started out as a proposed constitutional amendment to increase the main homestead exemption to $50,000. It went through several mutations, including one that would phase-in an increased homestead exemption, while limiting the maximum differential allowed under the Save Our Homes assessment limitation. The version that eventually passed increases the limit on the additional local option homestead exemption currently provided for low-income seniors to $50,000. The voters approved this amendment last November. Now, Florida's low-income seniors may receive, depending on the county in which they live, a total of $75,000 in homestead exemptions.

Relative Value of the Homestead Exemption Is Decreasing Over Time

Florida's homestead exemption has not been increased in almost 25 years. Because it is a set dollar amount, the relative value of that exemption decreases over time. Adjusting for inflation, the $25,000 homestead exemption of 1982 is now worth only $12,353.

To keep pace with inflation:

- *The original 1934 homestead exemption of $5,000 would have to be $72,873 today.*

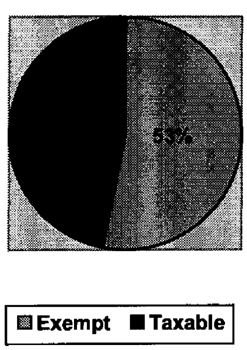
- *The increased 1982 homestead exemption of $25,000 would have to be $50,596 today.*

However, the combined effect of Save Our Homes and the homestead exemption in 2005 protects $83,000 of the average homestead's value from taxation. In 2006, the portion untaxed should exceed 50% of the home's value.

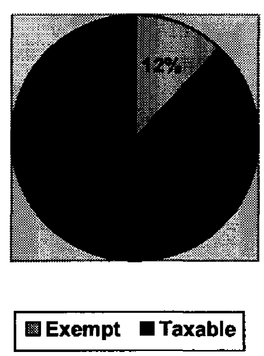
When the homestead exemption was increased to $25,000 in 1982, it removed roughly half of the average home's value from taxation. The average just value of a Florida single family home in 1982 was $47,152. The homestead exemption was 53% of that amount. In 2005, the value of the average single-family home was $210,795. This means the exemption now equals only 12% of the average home's value (see charts below).

Has the Benefit of Homestead Exemption Withered Away?

Percentage of 1982 Average Home Value of $47,152 Exempt by Homestead Exemption



Percentage of 2005 Average Home Value of $210,795 Exempt by Homestead Exemption



Source: Florida TaxWatch, using data from the Florida Department of Revenue, November 2006

In terms of actual tax savings to the homeowner, the homestead exemption is currently worth $489 to the average homesteaded taxpayer, based on the average statewide millage rate (all jurisdictions) of 19.54 mills. This compares to $408 in 1982, when the millage rate was 16.30 mills. Because property values have risen so rapidly, local governments have been able to raise significant new tax revenue without raising—and even lowering—millage rates. Therefore, the actual value of the tax break the homestead exemption affords has not risen dramatically. In fact, it has fallen in recent years as skyrocketing property values have led to decreased average millage rates. The savings from the homestead exemption peaked in 1997 at $549 (21.97 mills), and it has fallen, along with millage rates, almost every year since.

Property Tax Savings from Save Our Homes Now Dwarfs the Homestead Exemption

Although the homestead exemption has not been increased in years, the tax savings Florida law provides for homesteaders is growing rapidly. Florida's Save Our Homes assessment limitation has eliminated the need for increasing the homestead exemption for most taxpayers. In fact, for the average homestead property taxpayer, the $25,000 protected from taxation by the homestead exemption is now dwarfed by Save Our Homes.

The average value of a Florida homestead property in 2005 was $190,828. However, the average assessed value under Save Our Homes (SOH) was $132,804. This means SOH protects more than $58,000 (30%) of the average home's just value from taxation. When the homestead exemption is applied, the average homestead only pays taxes on 56% of the home's just value.

This is similar to the amount exempted in 1982, and with the big increase in the SOH differential expected in 2006, it is likely that the average home will have more than half of its value exempted.

The differential between the just and assessed values of homestead property is increasing rapidly as well. The differential was a little less than $8,000 in 2000. The 2005 amount of $58,000 was up from just under $40,000 in 2004, and the total statewide SOH differential is expected to be 64% in 2006.

Overall, SOH removes $404 billion in home value from taxation, compared to $109 billion for the homestead exemption. And while the homestead exemption value is growing by about 2% a year, the SOH differential is growing by more than 40% a year. In fact, that differential has increased by more than 1,300% since 2000, rising from $28 billion to $404 billion.

Increasing the Homestead Exemption—By Itself—Does not Make Sense

Increasing the homestead exemption, which has a lot of political and popular appeal, will certainly be considered. But it must be remembered that even though it has not been increased since 1982, the Save Our Homes amendment has more than made up for that, at least for most homeowners. Although it does have the benefit of providing a comparable benefit to all homesteaders, **as long as Save Our Homes exists, increasing the homestead exemption is not a tenable position.**

Since it has the same effect as SOH—reducing the taxable value of a homestead—increasing the homestead exemption exacerbates the big problem with SOH. It would increase the tax shift to non-homestead properties, affecting renters, businesses, second and vacation homeowners, and even homesteaders that also own non-homestead property.

When combined with changes in SOH, an increased homestead exemption could play an important role in a comprehensive reform of Florida's property tax system. It can help taxpayers retain at least part of their accrued savings in the event that Save Our Homes is eliminated or modified. **But without more comprehensive changes and principled reforms, the Legislature should avoid the politically expedient move of proposing an increased homestead exemption.**

Conclusion and Recommendations: Florida's Property Tax System Must Be Reformed

There is a property tax crisis in Florida. Local government spending has been rising largely unchecked, and property taxes and other revenues to fund that spending have been increasing as well. High property values have led to extraordinary property tax gains by local governments, even without increasing millage rates. The Save Our Homes amendment has kept taxes down for a large number of Floridians, so the growth in property taxes is unfairly being borne by the rest of the taxpayers. This has created a host of other problems, including unequal taxes on similar houses, people feeling they cannot afford to move, and an impact on affordable housing by increasing rents and increasing the tax liability on new homes.

The Florida Legislature is feeling a lot of pressure to "do something about property taxes". The 2007 Session will surely consider measures such as allowing for Save Our Homes portability and increasing the homestead exemption. The Legislature should avoid attempting quick fixes, such as increasing the homestead exemption, that do not address the real problems and, in fact, would magnify those problems.

Save Our Homes still enjoys a high level of popularity and changing its constitutional provisions will be difficult. The constitutional issue of equal protection discussed earlier could result in a legal challenge to the amendment.

The Property Tax Reform Committee and the Taxation and Budget Reform Commission have the opportunity to develop truly deep, comprehensive reform, and the Legislature or TBRC can provide constitutional proposals to voters. This is an issue that requires research, deliberation, and thoughtful debate. The Committee and Commission are certainly appropriate arenas to tackle this complex issue. It will also take a good educational campaign to inform the voters, and a proposal that maintains most of the property tax protections homesteaders now enjoy, coupled with a system to limit property tax increases in the future.

To truly reform property taxes, Florida should:

- Repeal the Save Our Homes Amendment.

- Allow homeowners currently under SOH protection to keep the reduced assessment. The amount of the differential would not change. For example, if a home were assessed at $60,000 below fair market value through Save Our Homes, future assessments would be at full market value minus $60,000.

- Institute a revenue cap on local governments. This could be limited to property taxes by requiring that local governments adopt a redefined rolled-back rate (one that allows for more growth than the current definition). This would provide a direct property tax limitation for all property owners in Florida. Alternatively, or in conjunction with the above, a cap that limits all governmental revenue growth and, as a result, spending, to a measure such as population growth multiplied by inflation or growth in personal income could be used. The cap could be overridden by a supermajority vote of the governing body.

- Allow for one-time, statewide portability of a homeowner's assessment reduction. If someone moves within Florida, their new house's fair market assessment would be reduced by the same amount as their old house. However, the assessed value of the new home must equal or exceed that of the old home.

Other Property Tax Reform Issues

The Property Tax Reform Committee is considering other property tax issues. Florida TaxWatch would like to offer these comments:

Assessing business property based on current use. The mandate to assess all property at fair market value, or "highest and best use", means that commercial property is taxed on what the property can sell for, not what the value of it is with the existing business. This has created unaffordable tax liabilities for many businesses, such as small hotels and apartments, and small businesses near the waterfront. Florida TaxWatch agrees that this is an important issue and supports efforts to remedy the situation.

Assess property using a five-year moving average. Annual assessments can result in big changes in assessed value, and therefore property taxes. Since there is a lag between market changes and assessments for property taxes, this can result in some real surprises for homeowners. A three or five-year moving average makes sense in that it would smooth out some of the fluctuations. However, this may not be the right time to institute this. Taxpayers have seen rapid increases in assessment in recent years, without the benefits of multi-year averages. Although there doesn't appear to be large-scale property value declines occurring now, they could come in the future. If such a decline in values takes place, assessments will decline at a lower rate with the multi-year average.

Replace property taxes with another revenue source. Basically, government can tax three things: wealth, income, and transactions/consumption. Florida currently relies on transaction taxes much more than the average state. Income, besides the corporate income tax, is not taxed to a great extent in Florida. Florida has a prohibition against a state property tax and with the recent (overdue) elimination of the state intangibles tax, local property taxes are the only major wealth tax in the state. About the only thing with a large enough tax base (under the current state constitution) to replace property taxes are sales taxes. It is currently estimated that a 1% increase in the current sales tax is worth $3.72 billion. It would take almost an additional 7 cents in sales taxes to replace the $25.7 billion in property tax levies in FY 2006. This would bring the total sales tax rate in the state to approximately 13% to 14.5%. It must be remembered that current levies (FY 2007) are probably closer to $30 billion, so it would take another penny to replace that. Further, with such a high rate, there would certainly be some reduction in demand, meaning the additional 7 cents probably would not raise the $25.7 billion. As former Federal Reserve Chairman Alan Greenspan said, "you get less of what you tax."

Florida already has one of the highest sales tax rates in the country. To more than double it does not make sense. It would create competitive problems, greatly increase taxes for anyone who doesn't currently pay property taxes, make Florida more expensive (and less desirable) for tourists, and create some major enforcement issues. With sales taxes that high, people will search for ways to avoid them. Add the replacement sales tax to the current state rate, local options and local bed taxes, you could have rates of over 20%.

Also, sales taxes tend to be regressive, while property taxes are proportional.

Replacing part of the state's property taxes with sales taxes is also problematic. For example, you could use a 1% sales tax to mandate an average 2.4 mill decrease in property tax rates. (The actual reduction would have to be calculated for every jurisdiction.) It would then, in subsequent years, be difficult to assure that the sales tax savings is still reflected in the newly adopted rates.

One potential avenue for providing property tax relief through increased sales taxes is through the state's Required Local Effort for school funding.

This *Research Report* was written by Kurt R. Wenner, Senior Research Analyst, under the Direction of John Turcotte, Senior Vice President for Research.

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About Florida TaxWatch

Florida TaxWatch is a private, non-profit, non-partisan research institute that over its 27 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than $6.2 billion -- approximately $1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

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Florida TaxWatch Values:

♦ Integrity ♦ Productivity ♦ Accountability ♦ Independence ♦ Quality Research

Florida's Property Tax Study
Interim Report

(As required by Chapter 2006-311, Laws of Florida)

Legislative Office of Economic and Demographic Research

Foundation of Facts

- Legislatively required study.
- Based on data and historical record with the exception of the portability estimate.
- Primary focus on:
  - Findings related to the Department of Revenue data
  - Background material sufficient to develop those findings
  - Legal analysis of the various proposals

Findings from EDR Research

- **Exemptions** shrink the property tax base and, in Florida, reduce the total capacity to raise revenues. They also shift the property tax burden (and cost for public services) from the exempt entity to nonexempt entities.

Just Value of the Property (Fair Market Value)	−	**Differentials** (Value in Use for agricultural properties & Save Our Homes)	=	**Assessed Value**
Assessed Value	−	**Exemptions** ($25,000 Homestead Exemption; property used exclusively for charitable purposes, etc.)	=	**Taxable Value**
Taxable Value	×	**Millage Rate** (Property Tax Rate)	=	**Property Taxes**

Tax Effects

- Studies have shown that tax breaks for residential property (such as Save Our Homes) will increase **housing prices** for the benefited properties. The converse is also true – higher property taxes suppress housing prices, all else being equal.

- Several studies have found that **commercial and industrial investment** tends to be more responsive to tax rates than residential investment. This means that the increasing shift of the property tax burden to businesses may cause them to reduce or eliminate commercial investment – in some instances, leading them to investments in other states where the property taxes are less burdensome.

What Has Happened?

- The interplay between falling statewide millage rates and the Save Our Homes limitation being less than the growth in the consumer price index for four out of the twelve years since implementation has had the practical effect of producing ***real*** **tax bills that are lower today** than they were in 1994 for those homesteads that have been protected since then, assuming adjustments for inflation.

Tax Rolls Affected by Save Our Homes

Year	Save Our Homes Limitation	Median Sales Price of an Existing Home
1995	2.7%	2%
1996	2.5%	5%
1997	3.0%	4%
1998	1.7%	6%
1999	1.6%	7%
2000	2.7%	7%
2001	3.0%	9%
2002	1.6%	9%
2003	2.4%	12%
2004	1.9%	17%
2005	3.0%	29%
2006	3.0%	6%

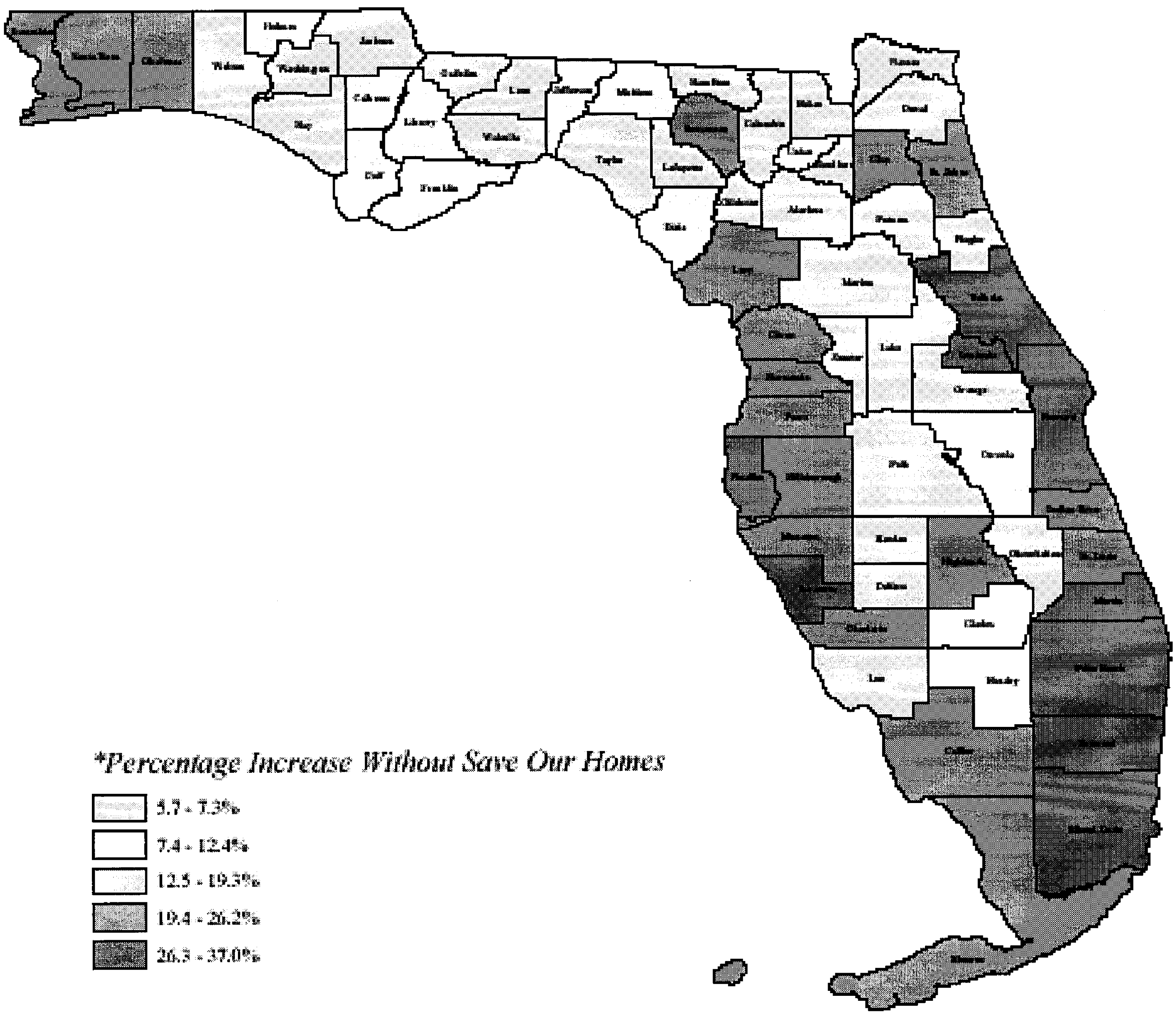
Findings Based on DOR Data

- As intended, the Save Our Homes amendment has **suppressed the taxable value** of homestead properties in Florida. In doing so, it has significantly shifted the tax burden away from homestead property and onto non-homestead residential and non-residential property.

	Percent of Taxable Value	
	Current	W/O SOH
Homestead Property	32.1%	45.5%
Non-Homestead Residential	34.5%	28.4%
Non-Residential Property	32.5%	26.1%

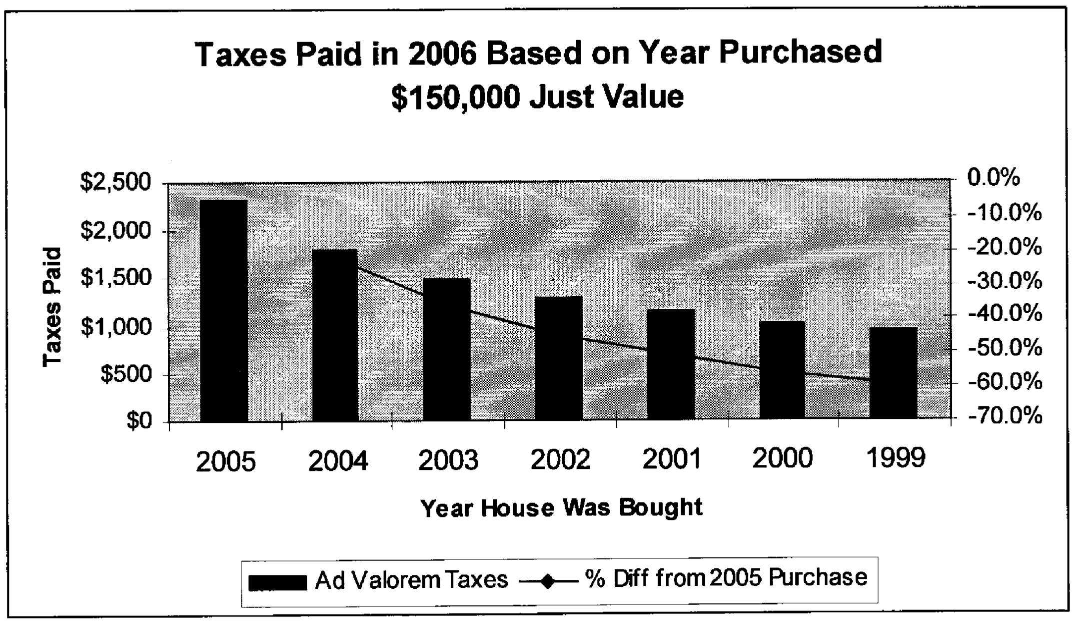
Differentials and Burdens

- The impact of Save Our Homes varies considerably by county; however, the greatest differentials have generally occurred in the **coastal areas of central and south Florida, and the extreme edges of north Florida**. Because larger differentials lead to greater tax shifting, non-homestead residential and non-residential property owners in those counties have increased tax burdens.


*Percentage Increase Without Save Our Homes
5.7 - 7.3%
7.4 - 12.4%
12.5 - 19.3%
19.4 - 26.2%
26.3 - 37.0%

Equity

- A direct outcome of the Save Our Homes tax preference is that **dissimilar tax burdens have been placed on homeowners in similar circumstances**, based solely on length of ownership. This is a horizontal inequity.



Affordability

- The dissimilar nature of the tax burden caused by Save Our Homes has an impact on the overall **affordability of housing** for individual buyers, but more research needs to be conducted prior to determining whether the increased burden is cost prohibitive to homebuyers and renters.

- The Save Our Homes protection has made it possible for homeowners on the margin to **remain in their homes longer** than they otherwise could have, but more research needs to be conducted on existing homeowners' ability-to-pay prior to determining the magnitude of this effect.

State Funding for Schools

- The presence of the Save Our Homes assessment growth limitation has had a **detectable impact on the distribution of the state-funded portion of the FEFP** in Florida. While the total funding per student is not affected, the mix of local and state funding is altered between school districts. This is turn affects the local property tax burden. Approximately $135 million or 1.8% of the total required local effort has been impacted.

- To the extent that the greatest differentials have generally occurred in the coastal areas of central and south Florida, and the extreme edges of north Florida (as previously found), these areas have **disproportionately benefited from the interaction of the FEFP with the Save Our Homes protection**, while the other areas have experienced higher school property taxes than they otherwise would have.

Portability

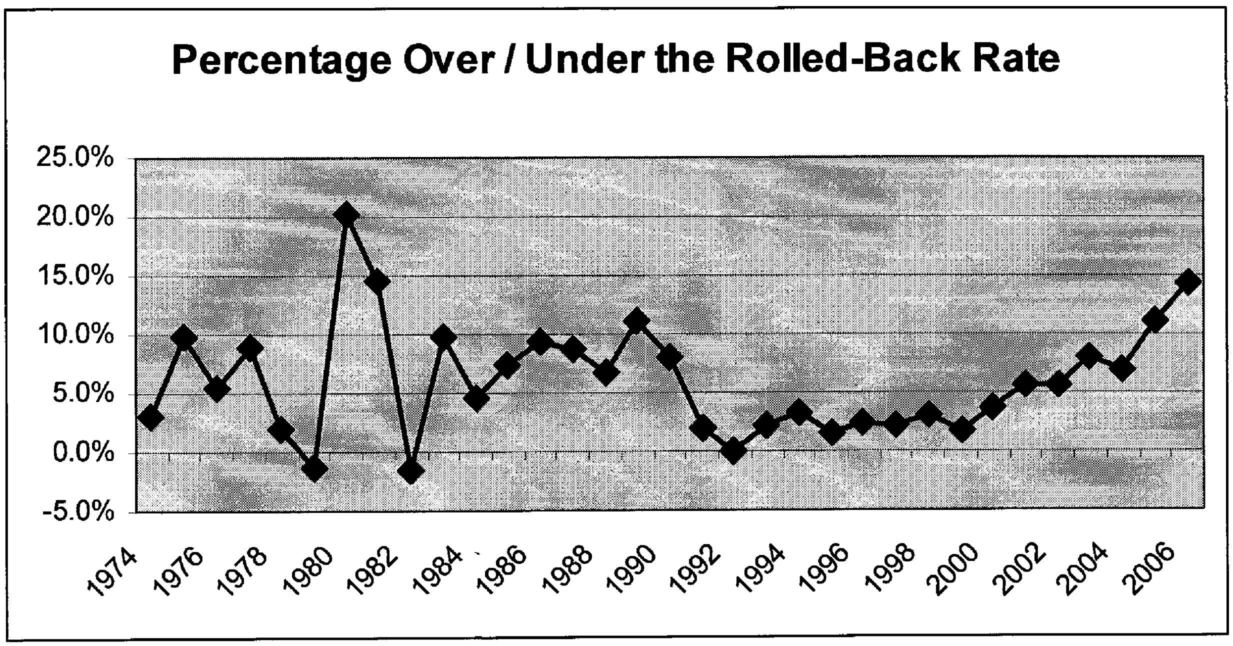
- Adoption of portability will **further reduce tax rolls** below the levels they would otherwise have attained.

- Full portability, if implemented with the 2008 roll, would reduce the ad valorem tax base by $13.6 billion in the first year. This reduction in taxable value would grow to $65.0 billion in the fifth year. At the 2005 average weighted millage of 19.6 mills, these tax base reductions would amount to reduced revenues ranging from **$267 million in 2008 to $1.3 billion in 2012**, if millage rates were held constant.

- In operation, portability is merely an extension of Save Our Homes. Because the differential can be transferred from one home to another, portability has the practical effect of **intensifying all of the previous findings related to Save Our Homes**. Both the magnitude and duration of the effects are increased.

Rolled-Back Rate

- For the 33 year period from 1974 to 2006, local taxing jurisdictions levied millages that were an average of **6.1% above the rolled-back rate**. For public school levies, this average was 5.8%, and for all other taxing jurisdictions, 6.4%. To the extent that homesteaded properties were protected by Save Our Homes, the **tax increases fell disproportionately on non-homesteaded properties.**



Affordability

- While the dollar value of the property tax burden may have increased for many Floridians, this does not translate directly into statements regarding individual affordability and ability-to-pay. **Homesteaders are shielded from the full impact of tax increases at the expense of non-homesteaders**.

Tax Burdens

- The impact of Save Our Homes on net property tax burdens is difficult to assess without additional study. **Personal wealth** as reflected in higher just values is not fully captured by measures of personal income, and **tax exportation** to other states and the federal government is rarely taken into account.

- Because Save Our Homes has shielded homesteaded property owners from the full effect of tax increases, the **visibility and awareness of the taxes being paid has been reduced**, potentially leading to an over-demand of services.

Findings Based on Hellerstein Legal Analysis

- While most of the proposed alternatives to the current property tax structure in Florida present no significant federal constitutional issues, **portability may provide opportunities for legal challenge** based on the Commerce Clause, the "Interstate" Privileges and Immunities Clause, and the Right to Travel.

- The **extension of assessment limitations** to non-homesteaded properties may generate Commerce Clause objections, but their strength is currently untested.

PROPOSAL	SIGNIFICANT CONSTITUTIONAL ISSUES (Legal Basis for Challenge)				DESCRIPTION & SPECIAL ISSUES
	Equal Protection Clause	***Commerce Clause***	***"Interstate" Privileges and Immunities Clause***	***Right to Travel***	
Elimination of Save Our Homes (effect on current beneficiaries)	None	None	None	None	Grandfathering that continues the current provisions for a select group would have greater vulnerability than a grandfather coupled with a freeze.
Extension of Assessment Limitations to Non-Homesteaded Properties	None	Unclear	None	None	U.S. Supreme Court granted certiorari in R.H. Macy case which addressed this issue, but taxpayer withdrew its petition.
Increase in the Current Homestead Exemption	None	None	None	None	
Modification of the Existing Save Our Homes Provision	None	None	None	None	
Portability	None	**EXIST**[1]	**EXIST, BUT WEAK**[2]	**EXIST, AND STRONG**[3]	1. Portability discriminates against interstate commerce (burden is of greater magnitude than SOH). 2. Portability discriminates because only benefits residents (same as SOH). 3. Portability deprives newly arrived residents of the right to be treated equally in their new State of residence (greater magnitude).

Remedies

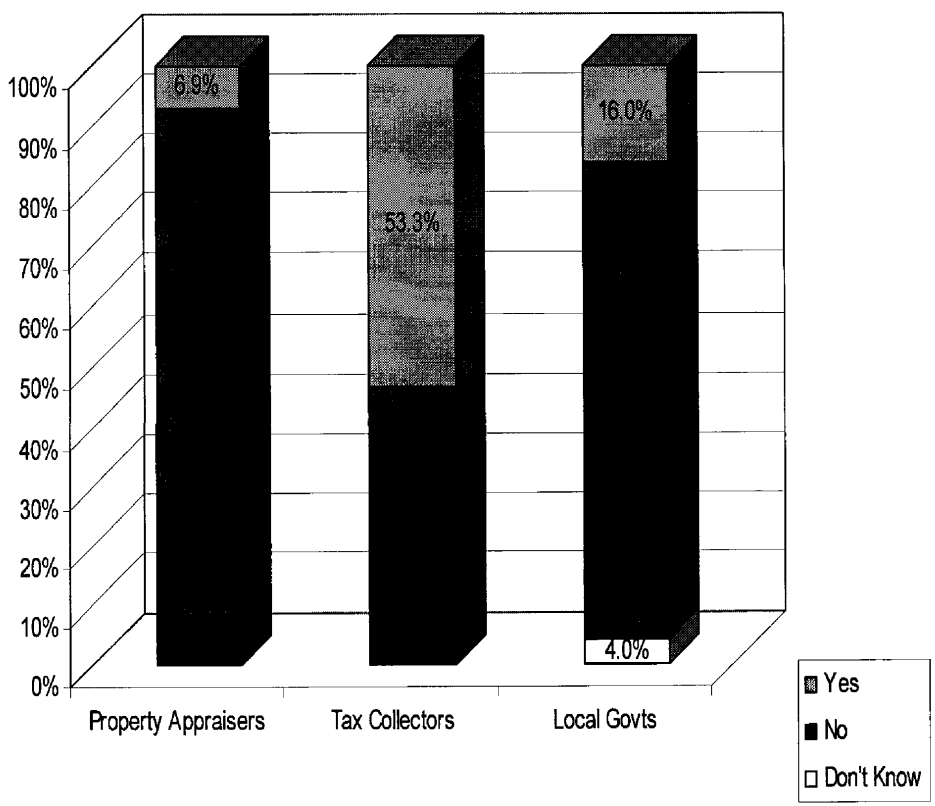
- If any of the proposed alternatives is adopted and later held to be unconstitutional the discrimination or burden would have to be:
  - Eliminated on a prospective basis, and
  - Remedied through meaningful backward-looking relief on a retrospective basis.
  - Meaningful backward-looking relief for a discriminatory tax may entail either a refund or any other remedy that cures the discrimination, *e.g.*, taxing the previously favored class on a retroactive basis.

Findings Based on EDR Surveys

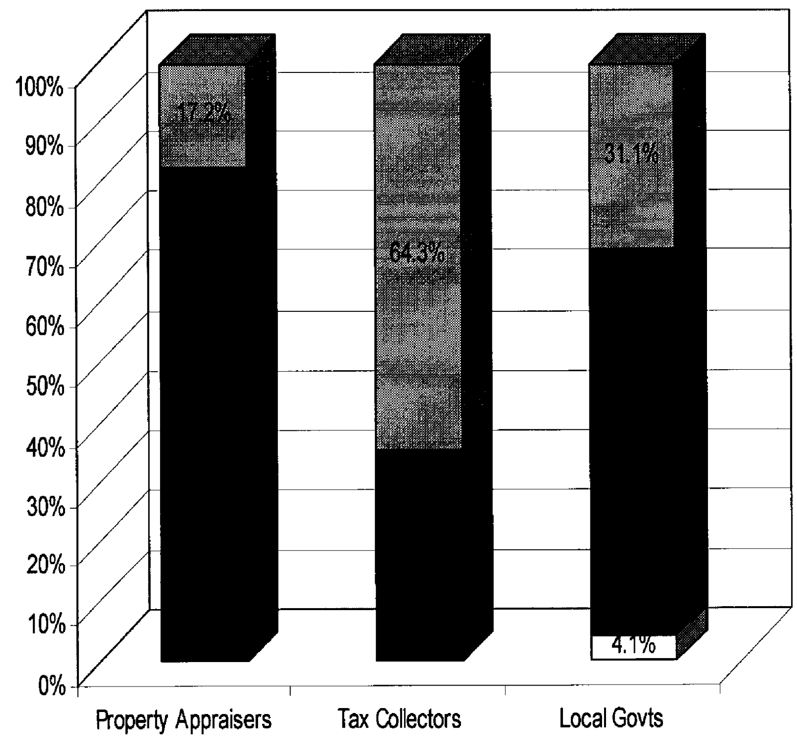
- Both local government officials and the county property appraisers feel that the property tax burden is not shared equitably among all property owners *or* among owners of homestead property, whereas the tax collectors were evenly divided on the question for all owners and thought that the burden was equitable for owners of homestead property.
  - Most of the comments regarding whether the property tax burden is shared equitably pointed to "Save Our Homes" or to the class of all exemptions as the cause of the inequities.

Survey Results on Equity

Among all Property Owners



Among Owners of Homestead Property



TRIM Process

- Property appraisers, county tax collectors, and local government officials were all asked to explain the primary purpose of the TRIM process. The responses were varied and wide-ranging indicating that there is no consistent vision of the primary purpose of TRIM in Florida.
  - When asked if TRIM was achieving its purpose, only the tax collectors strongly indicated that it was.
  - Comments on the TRIM notice indicated that the form is confusing, hard to understand and provides too much information.

Center on Budget and Policy
Priorities Documents

Florida's Property Tax: A Path to Equity and Adequacy

Iris J. Lav, Deputy Director
Center on Budget and Policy Priorities, Washington, DC
www.centeronbudget.org
at the
Property Tax Summit
House of Representatives
Tallahassee, Fl
February 20, 2007

Goals

- Hold down the proportion of total property tax paid by permanent residents, especially homestead property
- Prevent the property tax and increases in the property tax from unduly burdening resident households
- Avoid the inequities that an assessment limit such as Save Our Homes creates and that will grow greater over time

Goals

- Provide relief to full-time residential renters
- Assure that local governments have sufficient revenue to provide quality law enforcement, fire services, infrastructure development and protection, health and education and other services

Meeting Goals Requires State Participation

To provide adequate and equitable property tax relief …AND

Assure local government has adequate revenues…

Requires use of the broader state tax base to be PART of the solution through state-financed tax relief

Eliminate Save Our Homes

- Creates inequities among taxpayers with similar homes and similar incomes
- Creates inequities among local jurisdictions
- Disadvantages young people buying a first home and newcomers to the state
- Encourages over-housing and impedes free movement around the state
- Evidence from other states suggests problems just grow over time

Options to Hold Down Share Paid by Homestead Property

- A split-rate roll that taxes homestead property at a lower rate than non-homestead or commercial property
- A higher homestead exemption
- Taxation of homestead property on a specified, reduced proportion of just value

* * *

- All three options are "portable" in the sense that all homestead property qualifies regardless of length of ownership
- All three options reduce local revenue; they should not be relied upon to solve the **entire** problem

Enact Circuit Breaker

- Prevents taxpayers from being “overloaded” by their property tax bill
- Protects taxpayers from property tax increases they cannot afford – once property tax reaches designated proportion of income, all additional property taxes are rebated
- Well-targeted on those who need the relief
- “Portable” if move
- 24 states have circuit breakers

Examples of Circuit Breaker Formulas

- New Jersey
  - Rebate equals total amount by which property tax exceeds 5% of income
  - Available to single persons with incomes below $100,000 and families with income below $200,000
  - 18% of rent is deemed to be property tax
  - Maximum benefit is $1,200 for homeowners and $825 for renters
  - Cost = 4.2 percent of property tax collections

Examples of Circuit Breaker Formulas

- Maine
  - Rebate equals half the amount by which property tax exceeds 4% to 8% of income and the full amount by which it exceeds 8%
  - Available to single persons with incomes below $77,000 and families with income below $102,000
  - 20% of rent is deemed to be property tax
  - Maximum benefit is $2,000
  - Cost = about 2.3% of property tax collections

Florida Property Tax
As Percent of Income

Approximate average percentages as reflected in itemized deductions on federal tax returns

$50,000 - $75,000	4.3%
$75,000 - $100,000	3.6%
$100,000 - $200,000	3.0%

Source: Statistics of Income, Tax Year 2004. Comparable percentages in NJ are 8.0%, 6.5%, and 7.8%; in Maine they are 3.9%, 3.3%, and 2.6%

Example of Possible Florida Circuit Breaker

- Rebate property taxes that exceed 3 percent [or, if preferred, 4%] of income for people whose income is below $75,000 and rebate property taxes that exceed 5 percent of income for people whose income is between $75,000 and $200,000
- Deem 20 percent of rent to be property tax that landlords pass through to tenants in rent
- Make available to homestead property owners and full-time rental residents who qualify for sales tax exemption
- Determine level at which to set max benefit

Examples

Income	**$ 60,000**	**$125,000**
Just Value	200,000	400,000
Less Homestead	175,000	375,000
Millage	18.5	18.5
Tax	**$3,238**	**$6,938**
Limit: Percent of Income (3%/5%)	$1,800	$6,250
Potential **rebate** (depending on max)	**$1,438**	**$ 687**

Would Require Outreach

- Homeowners and renters have to file a form to receive their circuit breaker rebate

- This requires an outreach effort to make sure eligible people receive it

- Nonprofit organizations and civic groups can spread the outreach message

State Revenue Options to Pay for Circuit Breaker

- **Corporate Tax – closing “loopholes”**
  - Combined reporting (+$494 M)
  - Tax S-Corps under CIT* ($960 M)
  - Tax LLCs under CIT* ($250 M)
  - Decouple from Domestic Production Deduction ($139 M)
  - Enact Throwback rule ($29 M)

* Of six states with CITs but no PITs, only AK and FL exempt S-Corps and LLCs from the regular corporate income tax

Revenue estimates from Florida Tax Handbook except Domestic Production Deduction which is CBPP estimate

State Revenue Options to Pay for Circuit Breaker

- Decouple from federal estate tax changes with large exemption - $7 million per couple ($650 M)

- Re-impose intangibles tax on a broader base with $1 M exemption

- Expand sales tax to selected services; limit unwarranted exemptions

Estate tax estimate from CBPP

Dr. Holcombe's Presentation

Florida's Property Tax Problems: Obvious and Not So Obvious Solutions

Randall G. Holcombe

DeVoe Moore Professor of Economics, Florida State University

and

Senior Fellow, The James Madison Institute

Property Tax Growth: 1996-2006

Total Property Tax Collections

Year	Total Property Taxes Levied
1996	$12.3 billion
2001	$16.7 billion
2006	$30.4 billion

Property tax revenue growth has accelerated in the last half-decade.

Property Tax Growth: 1996-2006

Percentage Growth in Inflation-Adjusted Property Taxes Per Person

Time Period	Percentage Growth
1996-2001	7.6%
2001-2006	79.9%

Property tax revenue growth has skyrocketed over the past half-decade.

Would property tax reform in 2007 be like "closing the barn door after the horse has already escaped?"

- Increases in assessed values have slowed.
- Capping property tax growth might result in higher taxes elsewhere.
- It's worth considering more comprehensive tax and expenditure limitations.

What Are the Problems With the Property Tax?

1. Property tax revenues are rising at an alarming rate.
2. The "Save Our Homes" amendment creates inequities because similar properties – even homestead properties – can have very different tax bills.
3. Non-homestead property has seen skyrocketing tax bills over the past five years as assessed values have risen.

These problems have easily-identifiable solutions!

Problem: Property tax revenues are rising at an alarming rate.

Solution:

Cap the growth of all assessments for tax purposes, to protect all property the way "Save Our Homes" now protects homestead property.

Have that cap remain with the property if it is sold, so that a new owner will not face a higher tax bill than the old owner would have.

In the case of improvements to a property, the cap would rise in proportion to the value of the improvement.

In the case of new construction, the assessed value for tax purposes would be set according to comparable existing property already on the tax rolls.

Problem: The "Save Our Homes" amendment creates inequities because similar properties – even homestead properties – can have very different tax bills.

Solution:

Repeal the "Save Our Homes" amendment.

(Would we want to allow homestead property to keep their accumulated gains? Probably.)

Problem: Non-homestead property has seen skyrocketing tax bills over the past five years as assessed values have risen.

Solution:

Reassess all non-homestead property for tax purposes by reverting to the 2001 assessed value, and then allowing a 3% per year growth in assessed value for tax purposes to determine this year's assessed value.

If We Don't Like These Solutions, Perhaps We Have Misidentified the Problem

- If the run-up in property values has slowed, should we be focusing on more comprehensive taxing and spending limitations?
- Florida voters approved a constitutional limit on state spending growth in 1994, but because of its design, it never was effective.
- To keep limits on one revenue source from causing increases in others, a comprehensive limit on all state and local revenue or expenditures, along the lines of Colorado's 1992 "Taxpayer Bill of Rights" is worth a look.

More Radical Reform: Change the Method of Determining Property Taxes from Assessed Value to User Charges

- User Charges are already employed for such services as Emergency Medical Service (in Leon County, for example), garbage collection, stormwater management, etc.
- Extend this to replace ad valorem property taxes for police, fire, and roads and transportation, using ad valorem property taxes for other functions.
- This would make it easier for voters to resist ad valorem property tax increases, because those essential services would be funded by user fees.

Is Rising PROPERTY TAXES or a Symptom of a Larger Problem: Rising REAL ESTATE PRICES?

- Higher housing prices make housing less affordable.
- Higher real estate prices increase business costs.
- Prices of real estate, like anything else, are determined by supply and demand.
- Florida's restrictive growth management laws restrict the supply of developable land, increasing real estate prices.
- Easing the restrictiveness of Florida's growth management policies would relieve pressure on real estate prices, keeping tax increases in check, aiding in the goal of producing more affordable housing, and making business activity more affordable in Florida.

Perhaps we should look at growth management policies as one way of dealing with rising real estate values and rising property taxes.

Negative Economic Effects of High Property Taxes

- Discourages people from owning second homes in Florida. We don't want to lose them, because second home owners pay a disproportionate share of Florida taxes, but don't demand many services in return.
- Discourages business activity in Florida. Economic growth is highest in locations with relatively low taxes and affordable real estate. New York City and San Francisco have slower growth than Charlotte, Dallas, and Houston.

Proposed Property Tax Reforms

- Double homestead exemption? This would reinforce the inequitable treatment of homestead and non-homestead property.
- Make homestead exemption portable? This would perpetuate the existing inequities in "Save Our Homes."
- Cap the growth in assessed value of non-homestead property? This directly addresses some of the problems with the current tax structure.

Text of a citizen initiative proposal to limit property tax revenue by amending Article VII, Section 2 of Florida's Constitution

SECTION 2. Taxes; rate. All ad valorem taxation shall be at a uniform rate within each taxing unit, except the taxes on intangible personal property may be at different rates but shall never exceed two mills on the dollar of assessed value; provided, as to any obligations secured by mortgage, deed of trust, or other lien on real estate wherever located, an intangible tax of not more than two mills on the dollar may be levied by law to be in lieu of all other intangible assessments on such obligations. In setting ad valorem taxation rates, each authority setting such rates shall start at the rolled-back rate, which is defined as the ad valorem rate which the applicable tax assessors have certified will, if timely and fully collected, provide the authority with the same ad valorem tax revenues as were collected during the prior year. Without referendum approval, the taxing authority may set the ad valorem taxation rate at that rolled-back rate or below. Without referendum approval, the taxing authority may also increase the ad valorem taxation rate so as to increase the anticipated ad valorem tax revenues by up to three per cent over the ad valorem tax revenues collected during the prior year. In the event the taxing authority wishes to set the ad valorem taxation rate so as to raise anticipated ad valorem tax revenues by in excess of three per cent over what was collected in the prior year, the authority must first obtain referendum approval for such increase by the voters of each taxing unit subject to that increase.

Some Florida History: Millage Referenda Held from 1939 to 1968

- School districts could levy up to 10 mills without voter approval. (Local effort was higher back then.)
- School districts could levy up to an additional 10 mills for two years, if the voters approved.
- After two years, those additional mills would expire, and would have to be reapproved.

Florida Millage Referenda Had a Unique and Desirable Feature: Voters Could Choose Any Millage Rate They Wanted!

- The school board recommended a millage rate.
- Voters could vote for that rate, or write in any other rate they wanted.
- The millage rate selected was the rate preferred by the median voter.

Here's What A Typical Ballot Looked Like:

- INSTRUCTIONS TO VOTERS: Indicate by marking an "X" in the space after line one whether you favor the proposed millage levy which is necessary for the approved school term. If you favor a different millage levy, write the levy you favor after line two.

Estimated millage levy required for regular term (6 mills) . . . ________

Other Millage Levy . . . . ____________________

- To tally the votes, the millage rates voted for were ranked from high to low, and the median rate was the one selected.

Local Option Sales Taxes

- 60 of Florida's 67 counties have local option sales taxes.
- In 38 of those counties the local option taxes have an expiration date.

Two Lessons From Florida's School Millage Taxes and Local Option Sales Taxes

- Florida voters will approve taxes when they believe they will get their money's worth from the resulting expenditure. They almost always approved the requested school millage taxes, and most counties have local option sales taxes that were voter-approved.
- A requirement of voter approval of taxes does not mean those taxes will not be levied. It means that government officials must convince voters the resulting expenditures are worth the taxes they are asked to give up. It is an implementation of the principle of "no taxation without representation."

Rather than Looking at Caps, Another Way to Control Taxes Is To Require Voter Approval of Taxes

- Voter approval embodies the principle of "no taxation without representation."
- Existing taxes can be subject to approval (in addition to any new taxes).
- Florida's history with millage referenda and local option sales taxes shows that Florida voters will approve taxes when they believe the money is well-spent.
- Consider, for example, holding a referendum every four years on the sales tax rate, using Florida's old system for school millage referenda.

Broad Conclusions

- If we limit ourselves to solving the immediately obvious problems with the property tax, there are immediately obvious solutions to those problems.
- Government revenue in Florida has been growing more rapidly than the state's income for decades, at both the state and local level. Taxes are taking an increasingly large share of Floridians' incomes. Do we want to think more broadly than just property taxes?
- Are our growth management laws partly responsible for rising real estate prices and rising property taxes?
- While the "hot button" issue today is property taxes, taking a longer view shows the desirability of limiting the growth in all state and local revenues.

Narrow Conclusions: Getting the Property Tax Under Control

- The homestead exemption is part of the problem, so proposals to increase it, broaden its applicability, or make it portable, will not solve today's problems.
- A cap on all assessed value for tax purposes directly addresses today's problems.
- When considering voter approval for overriding a cap, let's turn that thinking around. Rather than thinking that there is a cap, and with voter approval it can be exceeded, think about it as a requirement for voter approval of taxes, with the cap representing what can be taxed even if voters don't agree.
- Look at the lessons from Florida's school millage referenda that ended with the new Constitution in 1968, and the lessons from current local option sales taxes.

1. A "cap" can be a level of taxation below the current level, as in both of these cases;
2. Voters will approve taxes when they believe the money will be well-spent.

Final thought on voter approval: Do we really want to override the will of the voters, even if we think we know better?